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FMCG'S MIDDLE CLASS INFLATION

THE RISE OF SBI'S YONO

INDIA TODAY GROUP

Business Today

July 11, 2021 ₹100

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CRYPTO CURRENCIES

ARE THEY EVIL?

AS THE MODI GOVERNMENT DEBATES WHETHER TO PERMIT OR BAN THEIR USAGE IN INDIA, WHAT THE BIG RISKS ARE FOR INVESTORS AND TRADERS

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From the Editor

Navigating The Cryptomaze

Regulations are often two steps behind new businesses. They lagged in e-commerce, the app economy; they are still lagging in social media, fintech, foodtech, edtech — even data privacy. The list is endless. But in case of crypto-currencies, they are hopelessly nine years behind the curve. Over these years, regulators have stayed mute witness to the unbridled growth of an industry without regulations. Then, conflicting actions and statements by the Centre, the Reserve Bank of India and the judiciary have together created a 'Cryptomaze' that investors, traders and crypto platforms are forever struggling to decipher. Even as crypto trading in the country has peaked to $500 million (around ₹3,650 crore) daily, there are no answers to whether India will allow crypto-currencies! If yes, in what form, when and how? In our cover story this issue, *Avneet Kaur* captures the distress, the dilemma and the drama behind India's ongoing struggle to understand cryptos.

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Meanwhile, six listed Adani group companies have seen a meteoric rise in their share price in the past year, propelling group Chairman Gautam Adani to the spot of the second-richest Asian. But the 122 per cent to 819 per cent growth in their share price during January 2020-June 11, 2021 belies the Sensex growth of only 27 per cent in the same period. *Nevin John* explores how over-valued Adani stocks are vis-a-vis their financial performance and why.

While Adani group's valuation is under the scanner, the valuation of State Bank of India's (SBI) very own start-up — an app named YONO (You Only Need One) — is the cynosure of all eyes. *Anand Adhikari* uncovers how India's largest bank SBI has an ace up its sleeve. Riding on the scale of the ₹45.35-lakh-crore parent, in just three years since launch, YONO has put up a sterling performance in lending, transactions and profitability. SBI claims the app alone is valued between ₹2.94 and ₹3.67 lakh crore. That's not just higher than SBI's own marketcap (₹3.64 lakh crore) but at $40-50 billion YONO may be valued well north of the great flagbearers of India's start-up ecosystem —Flipkart ($23 billion) Byju's ($16.5 billion) and Paytm ($16 billion).

On the infrastructure front, despite best efforts, the government of India and states have just not been able to get the power discoms monkey off their backs. In fact, the two Covid waves so far have worsened the financials of India's power distribution companies. Centre's UDAY scheme launched in November 2015 to revive discoms has failed miserably. While financial health of discoms did show some improvement in the first few years due to reduced interest burden, structural reforms needed to help them sustain themselves did not materialise. A new scheme has been announced. *Sumant Banerji* dives in to look at what works, what doesn't.

Covid has taken a major toll on the middle class, hurting its ability to spend and consume. FMCG prices have shot through the roof in the past year due to high commodity prices, supply chain disruptions and firms' desperation to shore up their bottomlines when topline is shrinking. Over 40 per cent of branded FMCG products are now costlier by 20 per cent or more. In case of edible oils, prices have shot up as much as 52 per cent. Where FMCG firms feared higher prices would impact consumption, they secured their margins by reducing weight of the products. *Ajita Shashidhar* takes you through this disruptive trend in home budgets and FMCG balance sheets.

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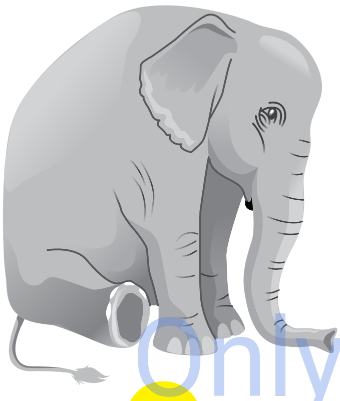

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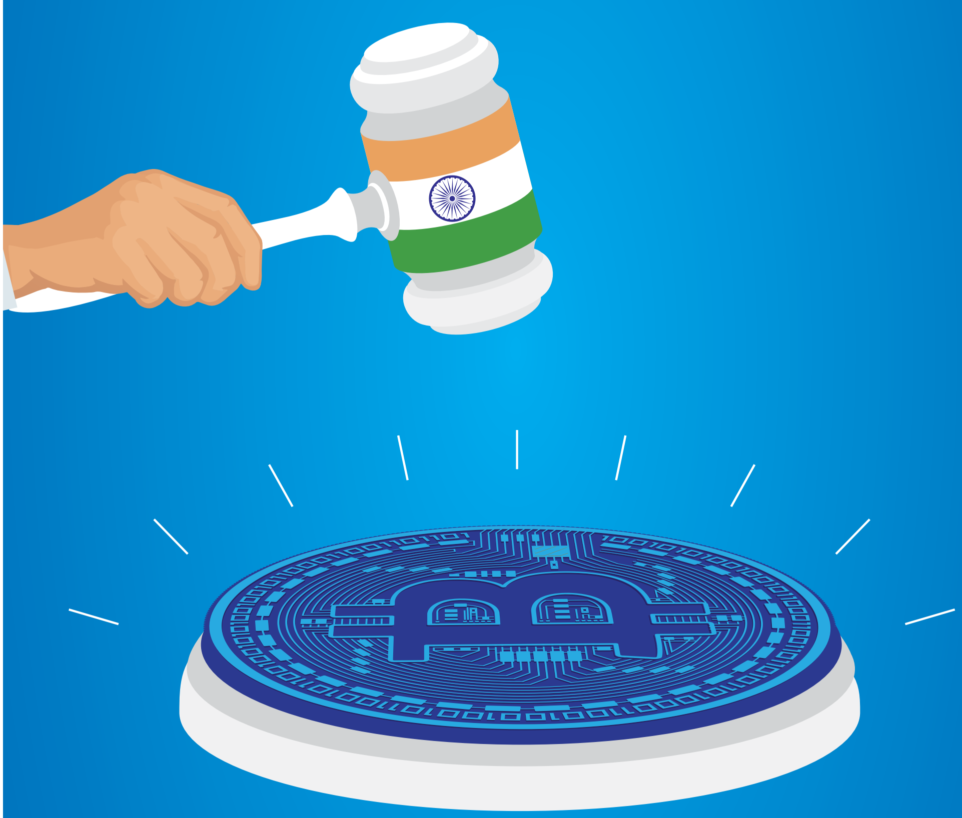

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Best Advice I Ever Got

"If leaders cannot be influenced, influence the person they trust"

Kaushik Sarkar

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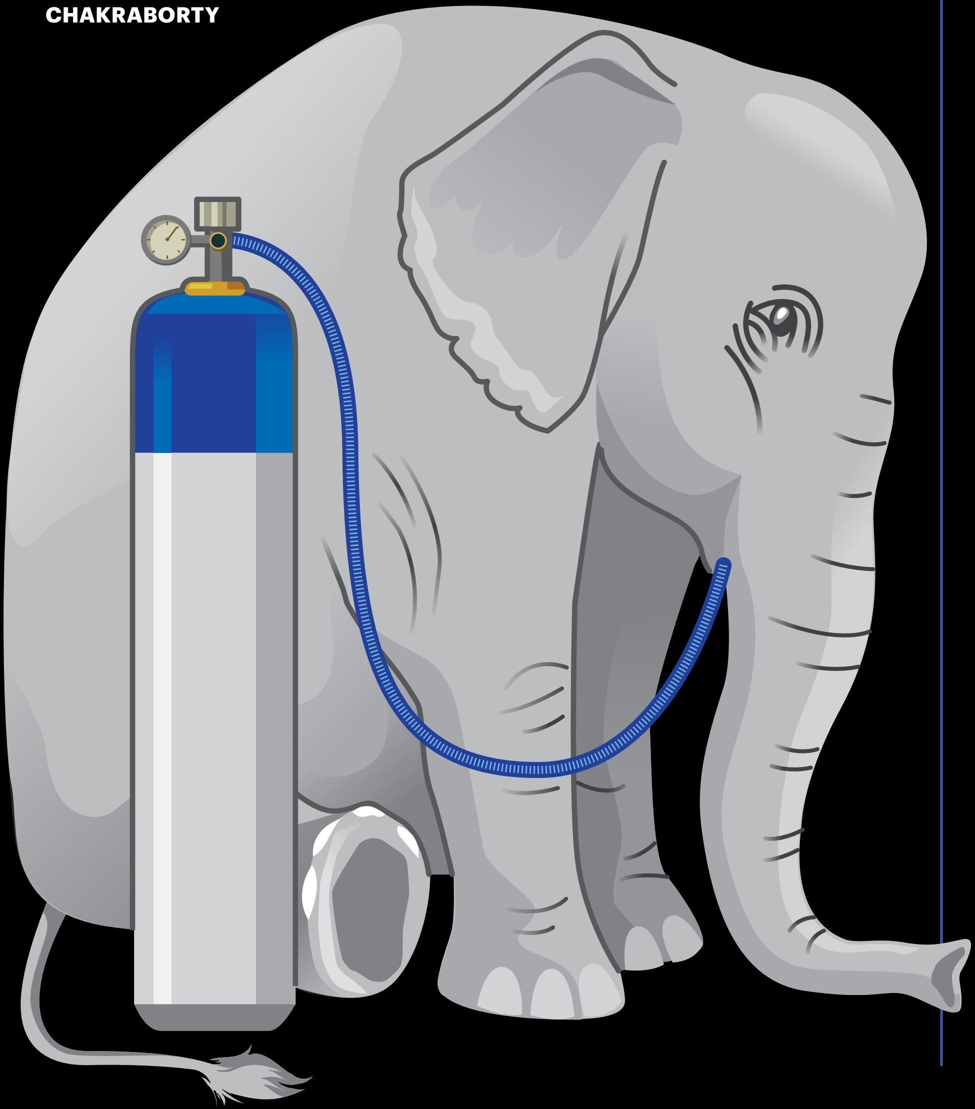
The Point

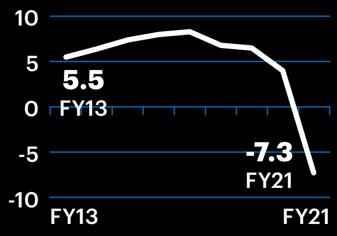
GDP BLUES

Indian economy shrank 7.3% in FY21 despite some improvement in Q4. Government consumption rose but investments were at a multi-year low

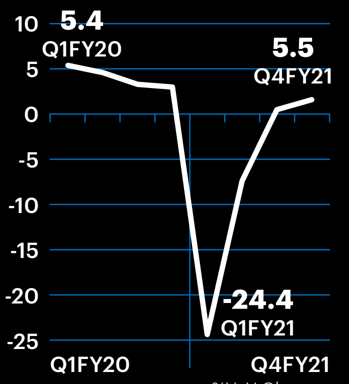
By **SHIVANI SHARMA**
Graphics by **TANMOY CHAKRABORTY**



GDP SHRINKS A MASSIVE 7.3%...

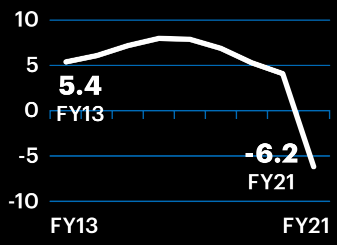


...DESPITE SOME RECOVERY IN LAST TWO QUARTERS



%YoY Change

REAL GROSS VALUE ADDED DOWN 6.2%



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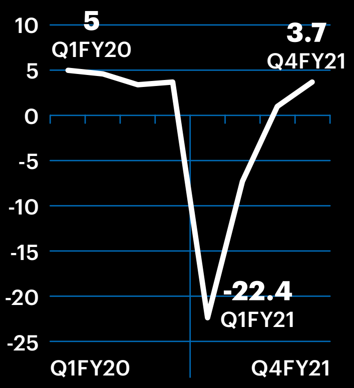

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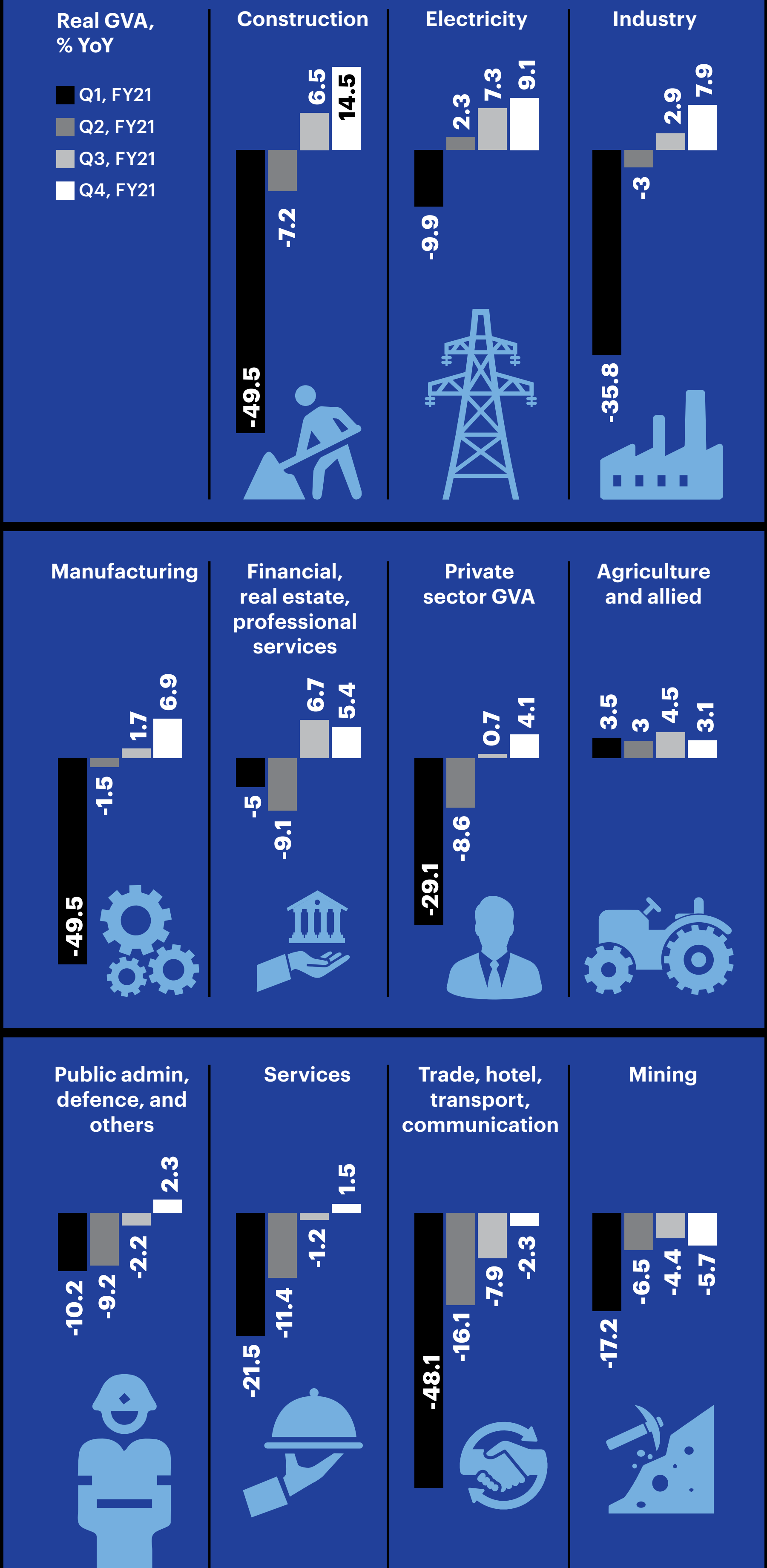
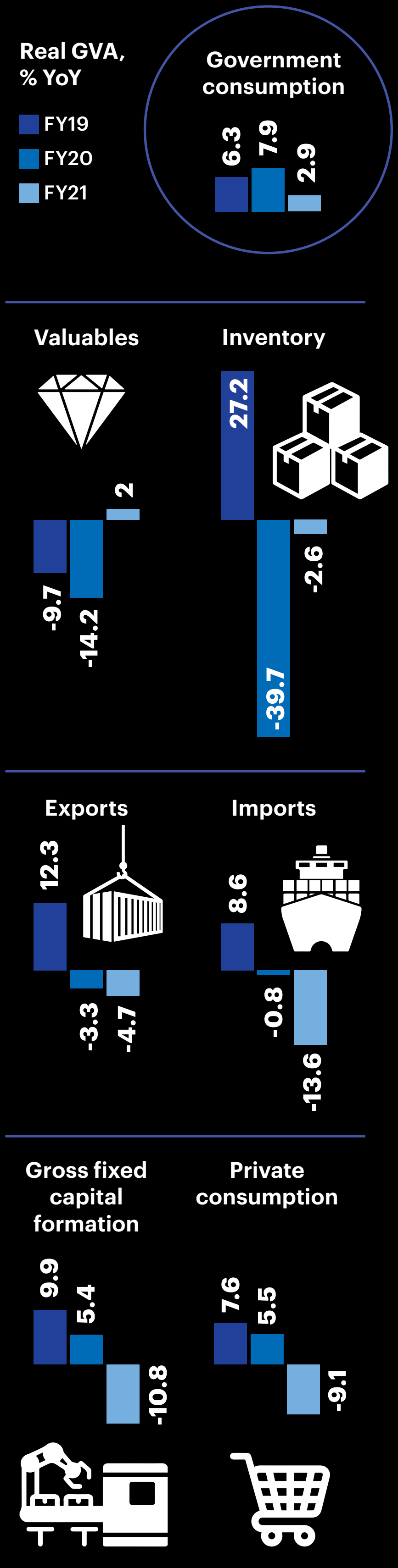
CONSTRUCTION AND ELECTRICITY SEGMENTS DO WELL



GOVERNMENT CONSUMPTION GROWS THE FASTEST



Source: Mospi

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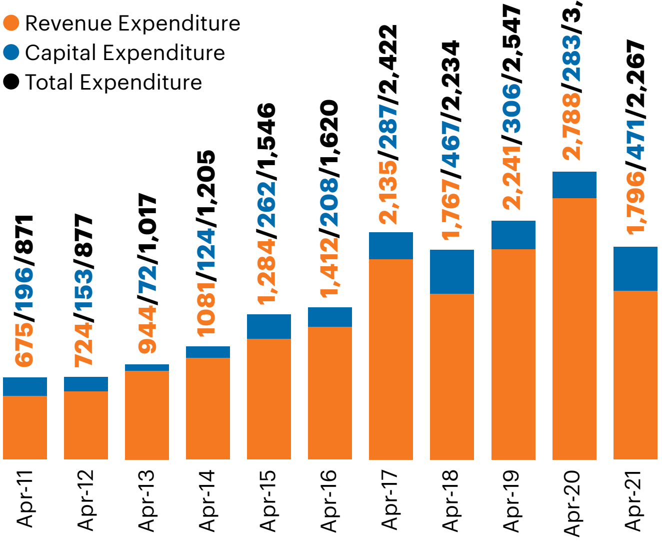
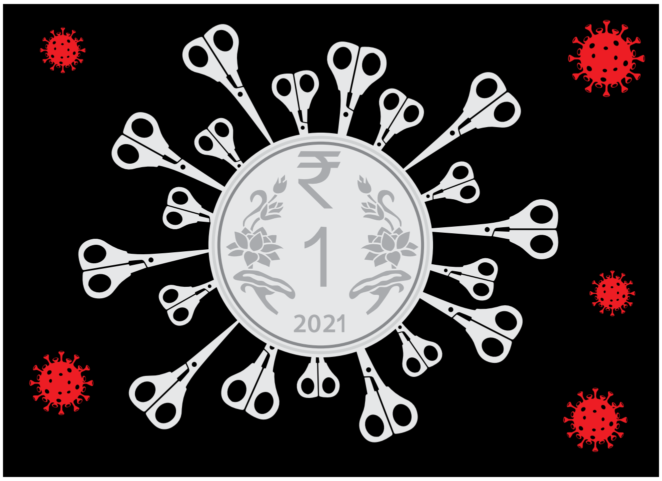
Government Cuts Expenditure Amid Covid-19 Wave

- The Central government's fiscal response to the second wave of Covid-19 has been tepid so far
- In April 2021, it spent ₹2.26 lakh crore, only 6.5 per cent of its annual budgeted expenditure of ₹34.8 lakh crore. This was 26.2 per cent less than the ₹3.07 lakh crore it had spent in April 2020
- Capital expenditure, however, rose 40 per cent from ₹28,300 crore to ₹47,100 crore

CENTRAL GOVERNMENT EXPENDITURE (₹00 cr)



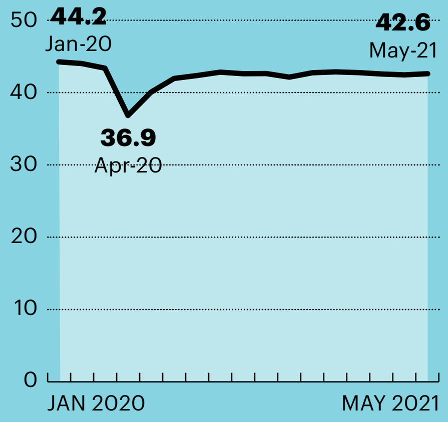
Numbers rounded off; Source: RBI



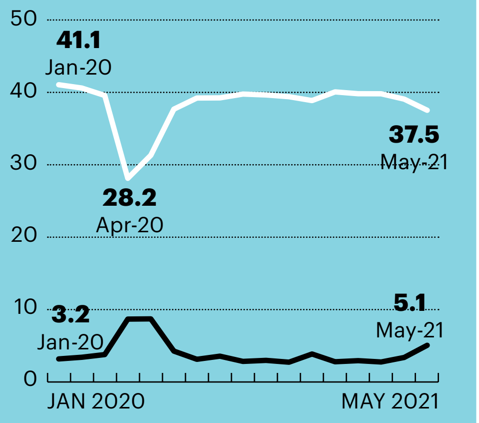
15.3 Million Jobs Lost in May 2021

- In May, India's labour participation rate was 40 per cent, the same as in April. However, the unemployment rate shot up to 11.9 per cent, from 8 per cent in April. This implies loss of 15.3 million jobs in a month
- The employment rate fell to 35.3 per cent from 36.8 per cent in April

LABOUR FORCE (in crore)



EMPLOYED **UNEMPLOYED**
(in crore)



Source: Ministry of Labour and Employment

ANNUAL FOODGRAIN OUTPUT RISES 2.7% TO ALL-TIME HIGH

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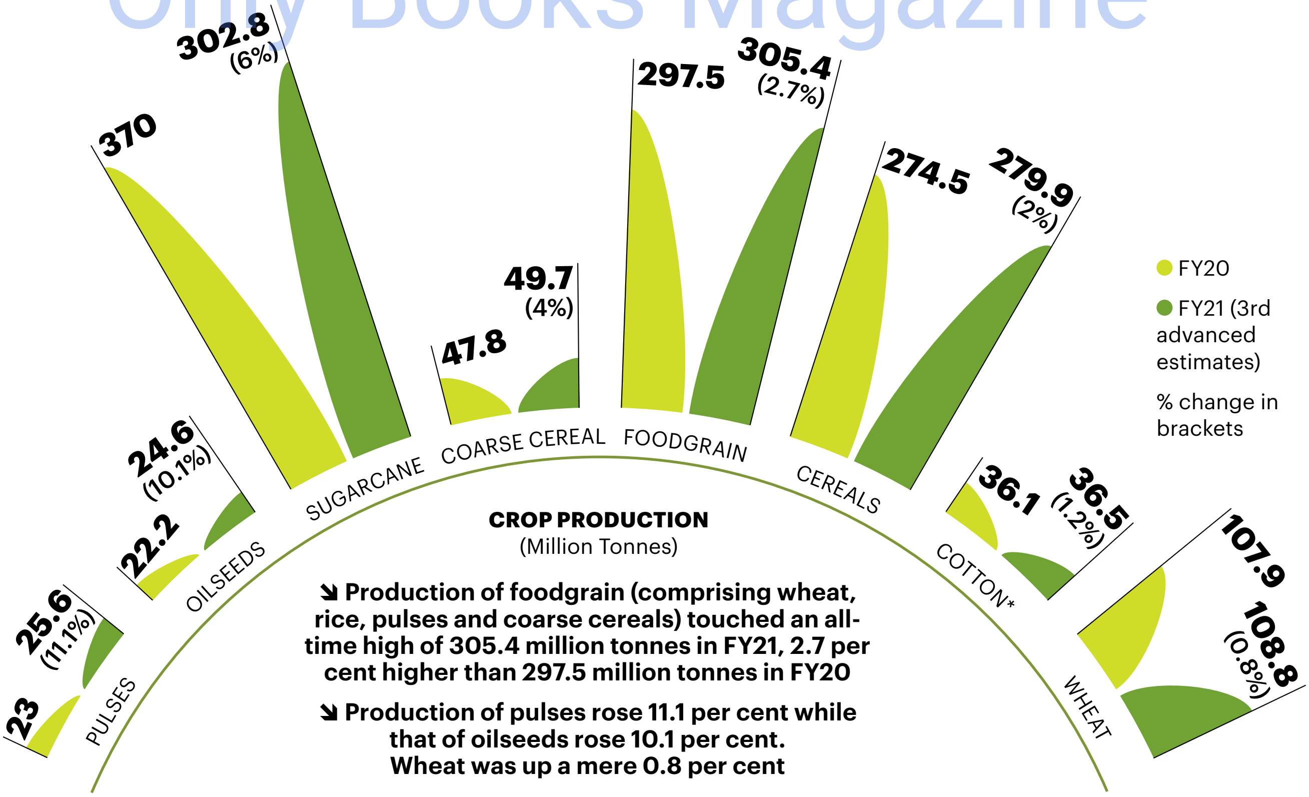


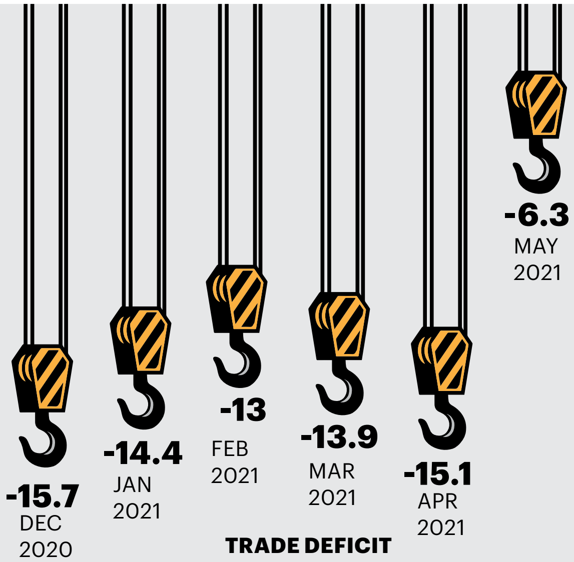
CROP PRODUCTION
(Million Tonnes)

- Production of foodgrain (comprising wheat, rice, pulses and coarse cereals) touched an all-time high of 305.4 million tonnes in FY21, 2.7 per cent higher than 297.5 million tonnes in FY20
- Production of pulses rose 11.1 per cent while that of oilseeds rose 10.1 per cent. Wheat was up a mere 0.8 per cent

Source: Ministry of Agriculture

Trade Deficit Narrows to $6.3 Billion in May

- India exported goods worth $32.21 billion in May, 67.39 per cent more than $19.24 billion in May 2020
- Imports were $38.53 billion, 68.54 per cent more than $22.86 billion in May 2020
- Merchandise trade deficit shrunk to $6.3 billion, an eight-month low, from $15.1 billion in April 2021

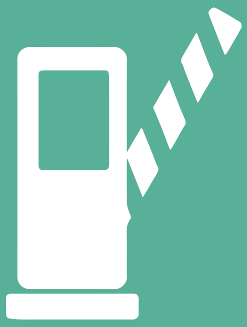


TRADE DEFICIT
($ billion)

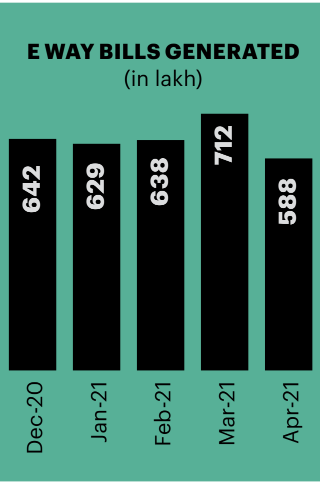
Source: MOSPI

SHARP FALL IN E-WAY BILL GENERATION...

➘ The number of e-way bills generated fell 21 per cent from 712 lakh in March to 587 lakh in April, indicating a blow to consumption delivered by the devastating second wave of the pandemic

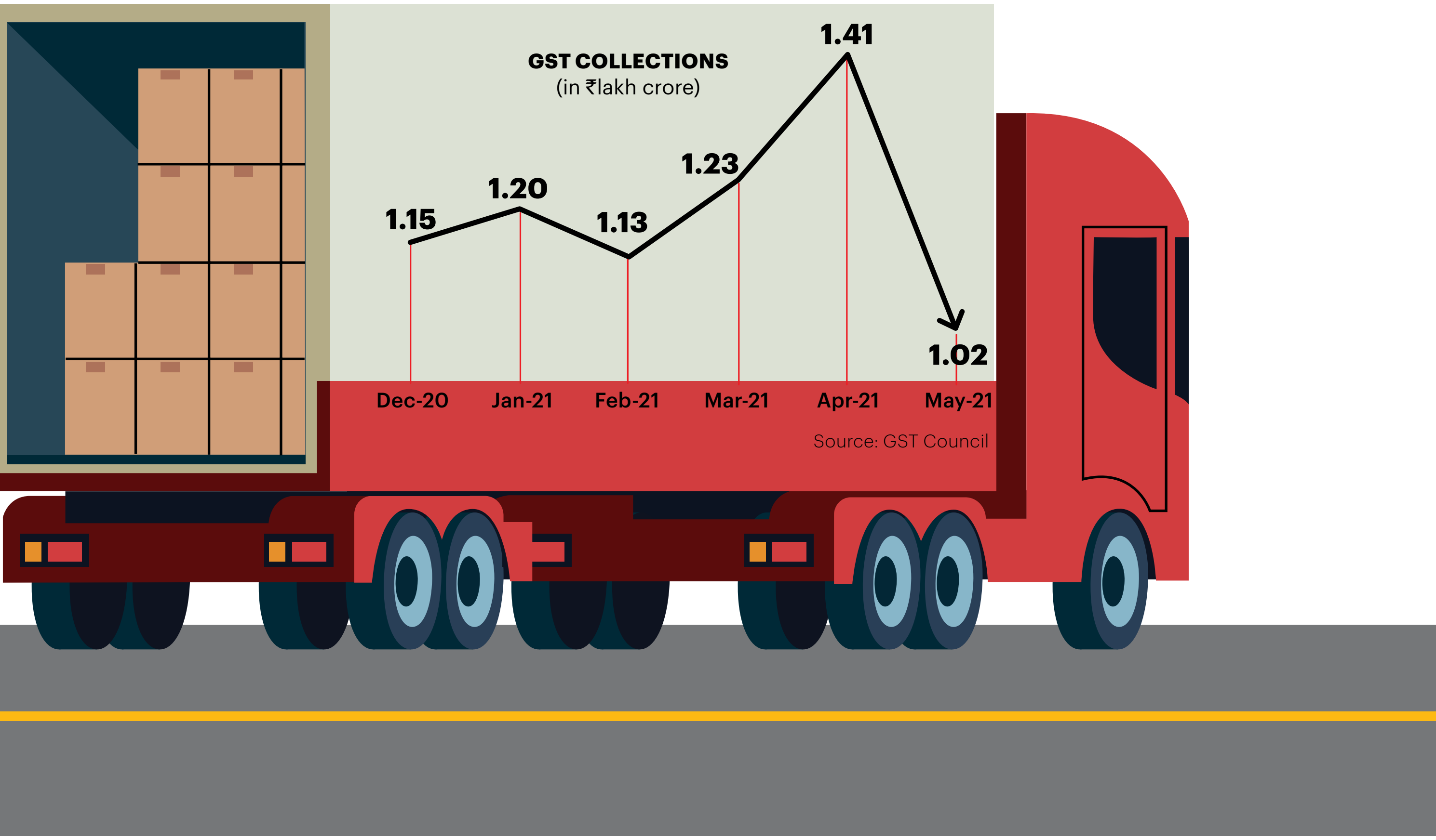


Source: GSTN



...GST Collections, Too, Dip

➘ Gross GST collections had touched a record high of ₹1,41,384 crore in April. However, the lockdown after that impacted business activity. As a result, the collections fell to ₹1,02,709 lakh crore in May



Source: GST Council

BUSINESS ACTIVITY INDICES SLUMP IN MAY

- The India Services Business Activity Index, released by IHS Markit, fell to 46.4 in May from 54 in April. A reading below 50 shows contraction. This is the first contraction in the services sector in eight months
- The IHS Markit India Manufacturing Purchasing Managers' Index stood at 50.8 compared with 55.5 in April. This was the lowest in 10 months

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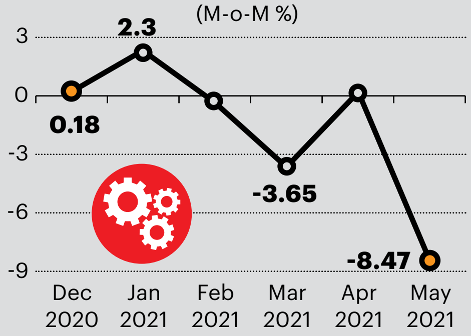
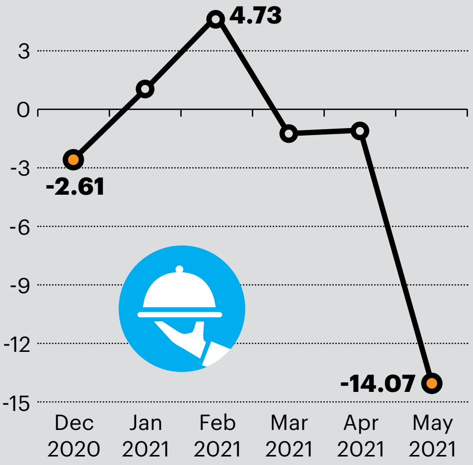
MANUFACTURING PMI
(M-o-M %)



SERVICES PMI
(M-o-M %)



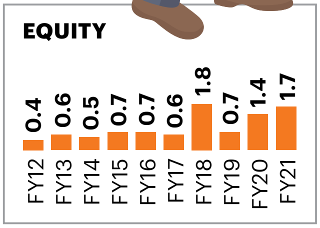
Source: IHSMARKIT

Non-banks Raise 5.8% More Funds

- Fund raising by non-banking enterprises in India through five sources — equity, debentures, bank credit, ECBs and FDI — rose 5.8 per cent from ₹20.7 lakh crore in FY20 to ₹21.9 lakh crore in FY21
- The enterprises mobilised ₹10.3 lakh crore through primary markets – equity and debt — 30 per cent more than ₹7.9 lakh crore in FY20
- Debt issuances rose 32.3 per cent to ₹8.6 lakh crore while equity rose 21.4 per cent to ₹1.7 lakh crore

(Figures in ₹lakh crore)

EQUITY



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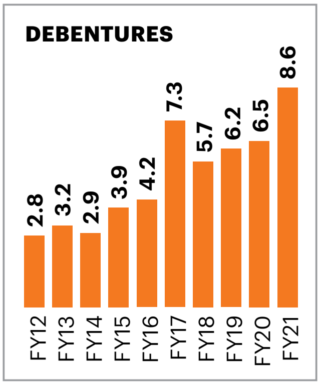

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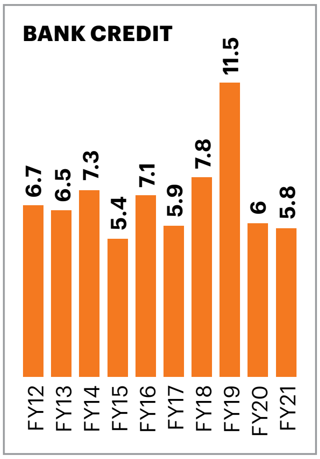
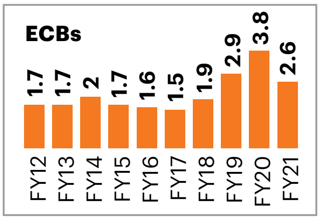


ECBs



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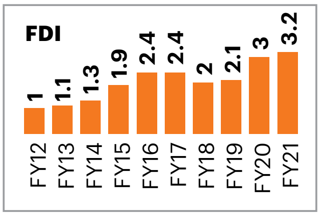

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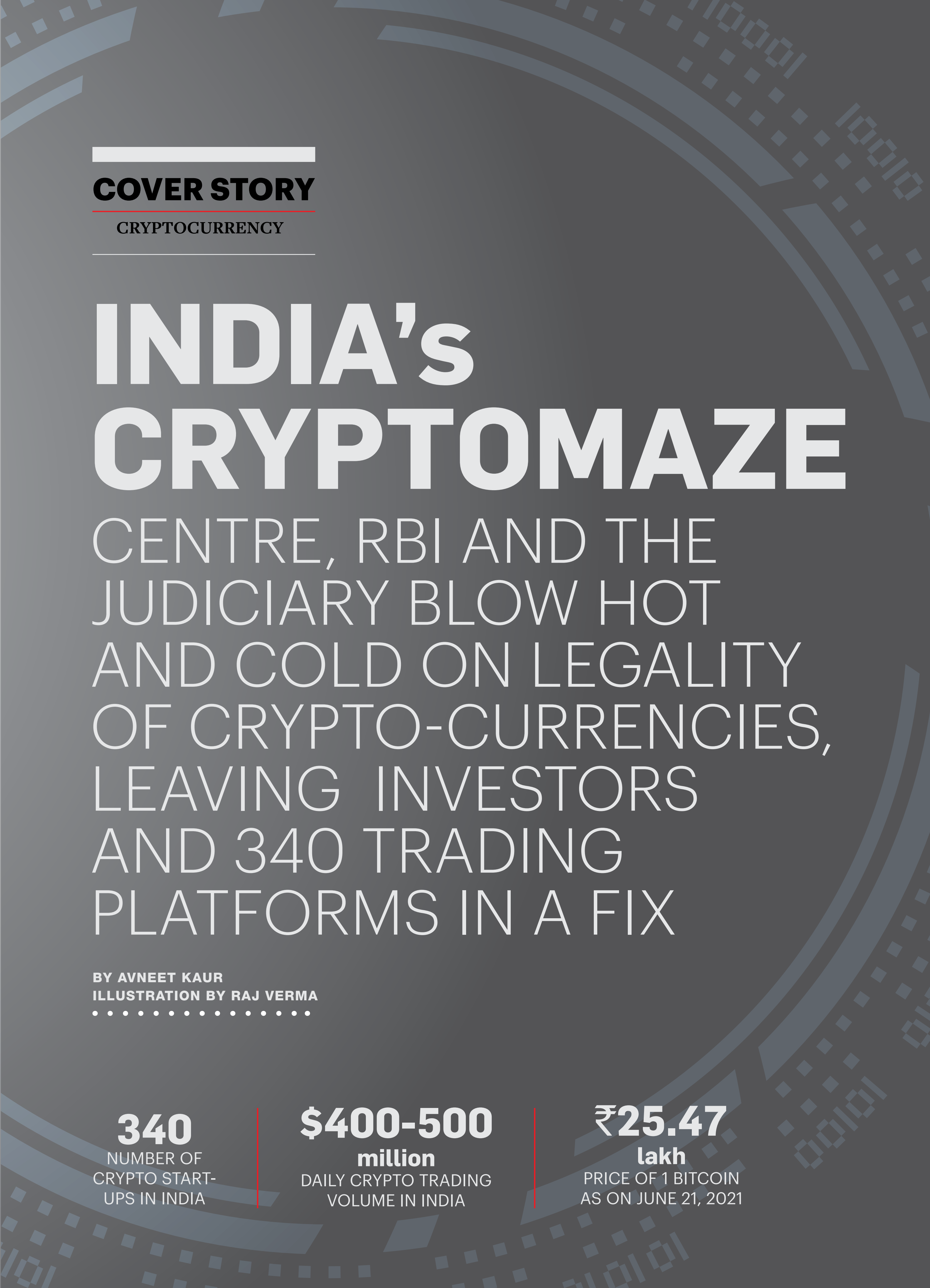

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CRYPTOCURRENCY

INDIA's CRYPTOMAZE

CENTRE, RBI AND THE JUDICIARY BLOW HOT AND COLD ON LEGALITY OF CRYPTO-CURRENCIES, LEAVING INVESTORS AND 340 TRADING PLATFORMS IN A FIX

BY AVNEET KAUR
ILLUSTRATION BY RAJ VERMA

340
NUMBER OF CRYPTO START-UPS IN INDIA

$400-500 million
DAILY CRYPTO TRADING VOLUME IN INDIA

₹25.47 lakh
PRICE OF 1 BITCOIN AS ON JUNE 21, 2021

On **May 22, 2010,** Laszlo Hanyecz, a Florida-based programmer, made the world's first commercial transaction using bitcoins. He bought two pizzas for 10,000 bitcoins. At today's prices, that's $357 million, making it the world's most expensive food order ever. A month ago, when bitcoin was at its peak, the two pizzas would have been valued at $600 million. Cryptocurrency enthusiasts celebrate May 22 as the Bitcoin Pizza Day.

Despite their enormous appeal and growing demand, cryptocurrencies such as bitcoin are fighting for legitimacy globally. But nations detest them. Government of India is, in fact, looking at criminalising possession, mining, trading, transfer and issue of crypto assets. Even though this threatens the Digital India initiative by hurting the development of blockchain – a database that stores data in blocks and could potentially help governments and companies in seamless record-keeping and reducing frauds.

……

$1.33 trillion

Market cap of global crypto industry as on June 21, 2021

Source: CoinMarketCap

TO BE OR NOT TO BE

NIRMALA SITHARAMAN,
Finance Minister

Only Books Magazine

Feb 2021
A high-level committee formed to study issues related to virtual currencies (VCs) has recommended that all private cryptocurrencies, except those issued by the state, should be prohibited.

March 2021
A lot of negotiations and discussions are happening around cryptocurrency with RBI. We want to make sure there is a window available for all kinds of experiments which will have to take place in the crypto world

SUPREME COURT

March 2020
When the consistent stand of RBI is that they have not banned VCs and when the Government is unable to take a call despite several committees coming up with several proposals, including two draft bills, both of which advocated exactly opposite positions, it is not possible for us to hold that the impugned measure is proportionate

SHAKTIKANTA DAS,
RBI Governor

Feb 2021
Central bank has reservations about cryptocurrencies and is working on its own digital currency

PHOTOGRAPH BY BANDEEP SINGH

Over the past eight years, the central government, the Reserve Bank of India (RBI) and the judiciary have been blowing hot and cold over cryptocurrencies, without providing a clear answer whether they are legal or not. This has kept those who have invested ₹15,000 crore in 340 crypto trading platforms on tenterhooks. Nearly $400-500 million (₹2,920-3,650 crore) worth of daily trading is at stake as industry awaits in stony silence.

What are Cryptocurrencies?

Cryptocurrencies are digital assets on peer-to-peer networks. They run on blockchain. This makes it impossible to change, hack or cheat the system as transaction ledgers are distributed across peer networks. New transactions are added to every participant's ledger. The digital ledger publicly validates all transactions.

These digital coins can be used as currency, asset, securities or utilities. As currency, they can be used for buying various goods and services. Bitcoin, for instance, is being accepted for various goods and services. As an asset or a security, it is like shares. The security tokens derive value from an external asset that can be traded. These tokens represent rights over property, company shares, revenue streams or underlying assets. In some countries, there are tokens where any time a company makes, say, $100 in profit, and there are 100 token holders, each person automatically receives one unit in value. "It's like programming dividend distribution into blockchain," says Jaideep Reddy, Technology Lawyer, Nishith Desai and Associates. Utility tokens are user tokens or app coins which provide discounts or additional benefits, just like an Amazon coupon. The Ether token represents right of access to the Ethereum network. A crypto asset can fall into more than one category. Ether can be used both as a payment and utility token.

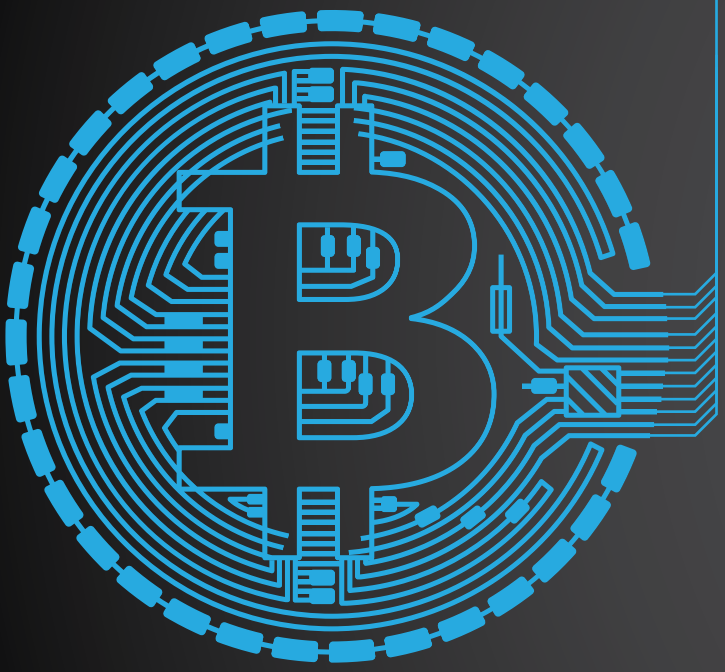
What Government Wants

The uncertainty around cryptocurrencies in India is a result of conflicting statements by government and RBI. In February 2021, RBI Governor Shaktikanta Das said the central bank has reservations about cryptocurrencies and is working on its own digital currency. Around the same time, Finance Minister Nirmala Sitharaman said in the Rajya Sabha that a high-level committee formed to study issues related to virtual currencies (VCs) has recommended that all private cryptocurrencies, except those issued by the state, be prohibited. Next month, she said, "A lot of negotiations and discussions are happening around cryptocurrency with RBI, which will take a call on what kind of unofficial cryptocurrency will have to be planned and how it is to be regulated. We want to make sure there is a window available for all kinds of experiments which will have to take place in the crypto world."

Meanwhile, the government is tightening the regulatory noose on crypto traders and platforms. A notification by the Ministry of Corporate Affairs earlier this year makes it mandatory for companies to disclose details of cryptocurrency trading and investments during the financial year. The government wants to gather data on companies' exposure to cryptocurrencies. Experts fear this could be the start of investigations around institutions which buy and sell digital currencies. "This investigation might be used to take penal action in future," says Uday Ved, head of tax at KNAV, a global accounting firm.

In June 2021, the Enforcement Directorate (ED)

Bitcoin: The Trailblazer



- **Oct 2008:** Satoshi Nakamoto releases white paper 'Bitcoin: A Peer-to-Peer Electronic Cash System'
- **Dec 2010:** Nakamoto leaves Bitcoin community; 1 bitcoin at $0.06
- **Jun 2011:** Bitcoin at $32, gains traction on Dark Web
- **2012:** Cryptocurrency makes subtle India entry
- **Jun 2013:** RBI releases first Financial Stability Report, defines virtual currencies as type of 'unregulated digital money'
- **Dec 2013:** India's first cryptocurrency exchange Unocoin launched; Bangalore hosts India's first global Bitcoin conference

$605 billion **Market cap of Bitcoin, the largest cryptocurrency, as on June 21, 2021**

charged WazirX, India's largest cryptocurrency exchange, with money laundering and fund diversion. Its notice alleged violation of FEMA Rules, 1999, for transactions involving cryptocurrencies worth ₹2,790.74 crore. According to the ED, WazirX users received cryptocurrency worth ₹880 crore via its pool account from Binance, the world's largest cryptocurrency exchange, and transferred out cryptocurrency worth ₹1,400 crore to Binance accounts. The ED is also probing some Chinese nationals who allegedly laundered ₹57 crore by converting the money into digital currency Tether and sending it to Binance accounts. Officials say none of these transactions are available on blockchain for audit or investigation. "It was found that WazirX clients could transfer 'valuable' cryptocurrencies to any person irrespective of location and nationality without proper documentation, making it safe for those indulging in money laundering or other illegitimate activities," says an ED official.

Rajesh Narain Gupta, Managing Partner, SNG & Partners, a full-service law firm, says WazirX may face rough weather in India. "Indian regulators need to adopt a firm stand on cryptocurrency as fate of investors and platform-offering services hangs in balance," he says. "The government has been aware of cryptocurrencies since 2013. Since nothing significant could be done in the past seven-eight years, no harsh steps should be taken suddenly when so much is at stake. There is a need to take a logical, informed and global view," says Gupta.

Blowing Hot and Cold

In 2013, RBI, for the first time, released a Financial Stabil-

- **Nov 2016:** Demonetisation fuels investment in cryptocurrencies
- **Dec 2017:** Bitcoin crosses $20,000
- **Feb 2018:** Government of India announces Bitcoin will not be legal tender
- **Apr 2018:** RBI issues circular prohibiting dealing in virtual currencies
- **Feb 2019:** Finance ministry committee recommends banning cryptocurrencies, suggests creation of digital Rupee. Recommends fine of up to ₹25 crore, or imprisonment of 1-10 years, or both.
- **Mar 2020:** SC strikes down RBI's crypto ban, terming circular unconstitutional
- **Apr 2020:** Cryptocurrencies trading volume up 700-800%
- **Jan 2021:** Bitcoin touches $30,000 and then $40,000 in a week
- **Jan 2021:** Government plans 'The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021' to create sovereign digital currency; ban private cryptocurrencies
- **Feb 2021:** Bitcoin breaches $50,000; RBI's Shaktikanta Das says central bank working on digital currency; FM Nirmala Sitharaman states panel recommended prohibiting all private cryptocurrencies, except state-issued virtual currencies
- **Mar 2021:** Bitcoin breaches $60,000; FM softens stance on crypto, says not all windows to be shut; Schedule III of Companies Act amended to make it mandatory for companies to disclose crypto trading and investments during the fiscal year
- **Apr 2021:** Bitcoin peaks at $64,000; Many banks blacklist crypto merchants and block crypto transactions in customers' accounts; MoS for Finance and Corporate Affairs, Anurag Thakur, assures protection of investors' interests; expresses concern over volatile prices
- **May 2021:** Bitcoin plunges 50% to near $30,000 on Elon Musk's tweet suspending vehicle purchase using Bitcoin and Chinese government issuing warning to financial institutions not to conduct virtual currency-related business

ity Report in which it defined VCs as "unregulated digital money, issued and controlled by developers and used and accepted by members of a specific virtual community." Later that year, it cautioned users, holders and traders of VCs about financial, legal and security risks. It said RBI was examining the legality of such currencies. The 2017 report of an Inter-Disciplinary Committee advised against dealing in VCs. It recommended legislative changes that would make "possession, trading and use of cryptocurrencies illegal and punishable". In 2018, RBI prohibited use of the banking system for cryptocurrency-related payments. This was set aside by the Supreme Court in 2020.

After this, people rushed to invest in bitcoin and other cryptocurrencies. Crypto exchanges in India have seen a multifold growth in volumes in last one year. WazirX saw a 700-800 per cent rise in volumes. Meanwhile, the price of Bitcoin surged 790 per cent from $6,500 in March 2020. It delivered over 300 per cent returns in FY20 and over 800 per cent in FY21, the highest across asset classes. Investor interest means India now has around 340 start-ups in the crypto space. A lot is at stake.

PHOTOGRAPH BY SUBIR HALDER

> CRYPTOCURRENCIES BASICALLY HAVE NO VALUE AND THEY DON'T PRODUCE ANYTHING. IN TERMS OF VALUE: ZERO. I DON'T HAVE ANY CRYPTOCURRENCY AND I NEVER WILL
>
> **Warren Buffett,** CEO and Chairman, Berkshire Hathaway

High Stake-Game

Around one crore investors in India are believed to be holding ₹10,000-15,000 crore worth of cryptocurrencies. That's a lot of money for an outright ban. "The draft that said possessing, holding, transferring cryptocurrencies would be punished by imprisonment or fine would bring lakhs of people under lens and force them to liquidate their assets," says Jaideep Reddy.

Experts say even if the government provides investors a 90-day window to get rid of their holdings, who will they sell to? "It will be difficult for small investors as they won't be able to liquidate," says Harish B.V., Co-founder & COO, Unocoin, a platform for trading cryptocurrencies.

Does this mean those who own cryptocurrencies will be stuck with their holdings? Experts don't believe the government will wipe out such huge investments belonging to millions of people. Reddy says a ban may remove the legitimate ecosystem and preserve the grey market.

A 'Calibrated' approach

Going by the finance minister's recent remarks, the government does not seem to be going for a blanket ban. In March, she said the central government will give people adequate leeway to experiment with bitcoins, blockchain and cryptocurrencies. Saying that fintech is an area where India has an advantage, she spoke in favour of blockchain and noted that India cannot be left behind in technology. "Many fintech companies have made much progress. We have received several presentations. Much work at the state level is happening. We want to take it up in a big way in the Gandhinagar Gift City," she said.

These statements suggest the proposed Bill will put a legal stamp on buying, selling and trading of cryptocurrencies. "This is conjecture at this point, and it remains to be seen what path Parliament decides to adopt," says Gupta.

RBI is also working on its own digital currency – Central Bank-backed Digital Currency. It would be different from cryptocurrencies, said RBI's Das. "We don't want to be left behind in the technological revolution. The benefits of blockchain need to be capitalised. We've certain concerns regarding cryptocurrencies," he added.

In May 2021, the National Payments Corporation of India rejected a proposal for a ban on cryptocurrency transactions. It asked banks to decide whether to allow transactions involving digital currencies based on their own risk assessment. Some bankers had asked the agency to block crypto transactions on its network. At present, most banks do not offer UPI services to crypto investors.

The Missing Details

Not many know the contents of the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, as officials have not consulted industry players yet. "No one knows what's in the Bill except the finance ministry. However, the government may form a panel to study and regulate crypto. It believes recommendations made by the Garg Committee in 2019 might be outdated. There is need for a fresh look instead of an outright ban," says Nischal Shetty, Founder and CEO, WazirX. The committee, headed by the then finance secretary, S.C. Garg, had recommended penalties of up to ₹25 crore ($3.63 million) and jail term of up to 10 years for anyone who mines, generates, holds, sells, transfers or issues cryptocurrency.

Why Governments Dislike Crypto?

The primary worry for governments is the decentralised design of cryptocurrencies. They

Companies Adding Bitcoin to Balance sheets

TESLA: In February 2021, Tesla disclosed it had bought $1.5 billion worth of Bitcoins (10% of the cash reserves). CEO **Elon Musk** also said they would start accepting bitcoin as payment on a limited basis (this was stopped in May)

Square: The financial payments company, run by Twitter founder **Jack Dorsey**, bought a combined $50 million worth of Bitcoins in the fourth quarter of 2020 and added an additional $170 million of Bitcoin to its balance sheet in February 2021

MicroStrategy: The Virginia-based software company holds roughly $4.5 billion worth of Bitcoins from an initial purchase price of $2.1 billion. CEO **Michael Saylor** remains bullish on Bitcoin with MicroStrategy making an additional $10 million investment in March 2021

$225 billion

Market cap of Ethereum, the second largest cryptocurrency, as on June 21, 2021

What India Can Gain From Cryptocurrencies

- Digital transformation and innovation in BFSI sector
- Make all financial transactions safe
- Create immutable record of past ownership and transactions (this will help in things such as land registry management)
- Instant and cheaper cross-border payments
- Better medical record maintenance and elimination of fake drugs
- More efficient supply chain management

What It loses If It Goes For a Ban

- Miss the global technological advancement
- Blockchain development will come to a standstill
- Loss of foreign investment , jobs
- Loss of wealth for small investors

are not backed by any sovereign. According to a Citi Research report, this puts them at the opposite end of the spectrum from central banks, which use monetary power to frame policy and control currency circulation. This allows governments to stimulate investment/spending, generate jobs and prevent inflation and recessions.

Minister of State For Finance Anurag Thakur has in the past raised concerns over price volatility in cryptocurrencies saying these coins often move 10 times in weeks. "That doesn't happen in fiat currencies," he said. This means common people cannot use it to pay for goods and services.

Another big worry for governments is terror financing. In 2016, an online jihadi unit launched social media campaigns to raise funds through bitcoins, says a paper by Abhinav Pandya, Founder & CEO, Usanas Foundation, and a geopolitical analyst. "Earlier, in June 2015, a Virginia teen was posting instructions on Twitter on how to donate to IS using bitcoins. In June 2017, the *Wall Street Journal* reported that a Syria-based Indonesian militant was using PayPal and bitcoins to fund the IS. On November 6, 2017, Dawaal Haqq, the Islamic news agency, sought donations on Facebook through bitcoins. In December, a few more pro-IS websites were soliciting funds through bitcoin donations." Pandya says while cryptocurrency has the potential to revolutionise the global financial transaction system, it has characteristics that make it attractive to cyber criminals, money launderers, drug smugglers and terrorists.

However, according to 'An Analysis of Bitcoin's Use in Illicit Finance' by Michael Morell, former CIA Director, the share of illicit activity in total cryptocurrency activity from 2017 to 2020 was less than 1 per cent. "For Bitcoin specifically, blockchain analytics firm CipherTrace estimates that illicit activity makes up less than 0.5 per cent of total transaction volume."

The former CIA terrorism expert believes hype is much greater than the reality and that cryptocurrency is not yet an important platform for terrorist organisations. Anyways, is it not the role of officials to make policies that help an innovation's benefits to flourish and protect users from the downside?

The Solution

India's 340 cryptocurrency start-ups want regulation instead of a ban. Industry experts are seeking a dialogue with the government. They say the government needs to know the practical aspects of this technology. “Right now, the Bill comes from theoretical knowledge, not practical knowledge which the industry has. We are the ones getting our hands dirty and building it. We need both practical and theoretical expertise,” says Nilesh Shetty of WazirX.

According to Sharan Nair, Chief Business Officer at CoinSwitch Kuber, 99 per cent use cases in India involve trading cryptocurrencies as an asset. “Our appeal to the government has been, do not use the word ‘currency’, but treat it as a commodity, like gold,” says Nair. No one is making payments in cryptocurrency here, he adds.

Industry association IndiaTech.org has given a five-point framework on how the government can regulate cryptocurrencies while encouraging innovation. It has suggested treating cryptocurrencies as an asset, not a currency. “Crypto must be understood to refer to digital assets and not a replacement of fiat currency,” says its white paper. Second, as there is no clarity on taxation, IndiaTech’s paper suggests that digital assets should be treated as other investments and subject to capital gains taxes under the Income Tax Act. It recommends self-regulation and common KYC for easy traceability of transactions.

> WE SHOULD THINK OF CRYPTO AS AN ASSET CLASS. CRYPTO AS A TRANSACTION MEDIUM WILL NOT WORK AS FAST AS UPI. HOWEVER, CRYPTO HAS ENORMOUS CAPITAL
>
> **Nandan Nilekani,** Co-founder and Chairman, Infosys

PHOTOGRAPH BY NILOTPAL BARUAH

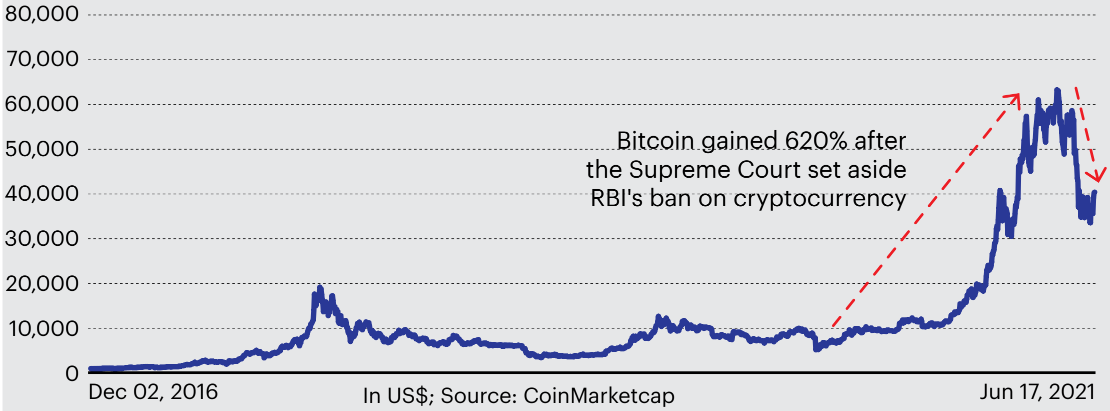
Regulation in Other Countries

In economic impact terms, the World Economic Forum (WEF) anticipates that 10 per cent of global GDP will be supported by blockchain by 2025. China is turning legal tender into computer code, though it banned cryptocurrencies in 2017 after which most of its exchanges shifted to Japan, which treats profits from cryptocurrencies as miscellaneous income. Japan, one of the early adopters and the biggest markets for bitcoin, has legalised cryptocurrencies as property. The US, the second-largest adopter of bitcoin, does not accept it as legal tender but treats it as a capital asset. It, though, allows purchase of goods and services through cryptocurrencies and taxes profits as capital gains.

Switzerland allows its citizens to purchase bitcoins at hundreds of automated teller machines and ticket vending machines. South Korea and Germany do not recognise cryptocurrencies as legal tender but allow citizens to trade and invest in bitcoin.

Singapore taxes cryptocurrencies based on their uses. Profits earned by businesses that use cryptocurrencies in the ordinary course of their business are taxed. Profits of businesses which mine and trade digital tokens in exchange for money are also taxed. Businesses that buy digital tokens

An Unstoppable Rally & A Great Fall



Bitcoin gained 620% after the Supreme Court set aside RBI's ban on cryptocurrency

Bitcoin plunged by 50% following Tesla CEO's tweet suspending vehicle purchase using bitcoin

In US$; Source: CoinMarketcap

as a long-term investment enjoy tax-free capital gains.

Most countries have not clearly determined the legality of cryptocurrencies, preferring to adopt a wait-and-watch approach. “Some have indirectly assented to legal use of cryptocurrencies by regulatory oversight. However, cryptocurrencies will never be legally acceptable as a substitute for a country’s legal tender, unless they are backed by the government,” says Rajesh Narain Gupta SNG & Partners.

Can Cryptocurrency’ be Banned?

The use of digital money as a currency cannot be banned unless it is used to perform an unlawful act. A cryptocurrency may be defined as an asset, commodity, currency or security. But fundamentally, it does have value and liquidity. “There are millions of people around the world willing to hold cryptocurrencies. I can send you some bitcoin, you can send it back. You can call it currency or not, definitions do not matter. If there is an agreement, it acts as a medium of exchange,” says Changpeng Zhao, CEO of Binance. Zhao explains if you agree to be paid in bitcoins for a good or a service, it is a currency, though you may call it by any name.

“The only way to ban cryptocurrencies is to stop the internet,” says Nischal Shetty. The only operational challenge is to classify whether something is being used as a currency or not. For example, one can buy or sell gold, but if one exchanges gold for a car, does that mean payment for the car or sale of gold? “How can we decide when something is a currency, as barter is not prohibited in India? We have systems like loyalty points, exchange offers. You can even swap cars,” says Jaideep Reddy of Nishith Desai and Associates.

Inseparables: Blockchain & Crypto

The government says it is in favour of blockchain but not private cryptocurrencies. Technically, these two cannot be separated. “A blockchain without cryptocurrency will end up like any random database that you build within a computer. That is not real innovation,” says Vijay Ayyar, Head of Asia Pacific & Global Expansion at Luno, a cryptocurrency wallet and exchange. There is no technical way to run public blockchain network systems without cryptocurrency. Reddy explains with an example. If someone wants to build a software application on Ethereum, he has to use Ethereum’s native currency Ether to pay for buying services within Ethereum. Thus, if you want to use blockchain, use of cryptocurrency is unavoidable.

What Investors Want

“I want a favourable decision from the government. Before a blanket ban or taking a harsh view, it should think about those who have invested,” says Siddhesh Jamsandekar, 34, who works in a Mumbai-based private organisation. Jamsandekar bought two bitcoins in 2014 at $500 a piece. He wants his money to be safe and legal.

“All boardrooms are discussing crypto. Corporates are super interested,” says the founder of a crypto exchange. “Some big companies, including an OTT platform, have approached us to understand the legal standing of cryptocurrencies,” says a legal expert at a reputed law firm.

Most Popular Cryptocurrencies in India

	Coin	Pair	Price (in US$)	Price in INR	Volume %
1	**Bitcoin**	BTC/INR	35,805.60	25,47,465	15.08
2	**Tether**	USDT/INR	1.04	77.31	13.75
3	**Polygon**	MATIC/INR	1.40	101.51	10.29
4	**Shiba Inu**	SHIB/INR	0.00000790	0.000578	8.56
5	**Dogecoin**	DOGE/INR	0.277289	20.15	5.20
6	**Ethereum**	ETH/INR	2,215.62	1,58,500	4.13
7	**WINkLink**	WIN/INR	0.00045588	0.0331	2.73
8	**Dock**	DOCK/INR	0.101048	7.206	1.66
9	**Ripple**	XRP/INR	0.762018	54.2288	1.48
10	**TRON**	TRX/INR	0.068651	4.9259	1.20

Top cryptocurrencies on the basis of volume on India's largest crypto exchange, WazirX; Price as on June 21, 2021; Source: CoinGecko

While institutional investors in the US are increasingly buying cryptocurrencies, including bitcoin, Indian companies are shying away from discussing their exposure openly due to lack of legal clarity. "Most corporates are in the exploratory stage. Corporate movement will happen once regulations come in. At an informal level, companies are super interested in cryptocurrencies," says Sharan Nair of CoinSwitch Kuber.

Taxation As a Foreign Asset

Uday Ved of KNAV says just like foreign bank accounts or foreign mutual funds or stocks, cryptocurrencies are foreign assets and need to be disclosed while filing income tax returns. "I don't think there is any crypto listed in India," says Ved. He says there is a ₹10 lakh penalty in case of non-disclosure by an individual. There is no clear rule on taxation but industry is open to any classification as long as there is no double taxation.

Ritesh Kumar S., Executive Director, IndusLaw, says the treatment could depend upon the interval at which income accrues. "The popular approach is to tax as capital gains. This is premised on the assumption that these are capital assets and not traded frequently. However, if the transaction is being carried out as usual business, the income could be taxed as 'profit & gains from business'," he says.

Could there be a sin tax of 28 per cent? "It is difficult to say, but 28 per cent tax on value will distort the market. Indians may not be able to participate at fair prices," says Jaideep Reddy. "The most conservative view is that cryptos are like residuary goods. In that case, there should be 18 per cent GST," he adds.

Beyond Currency or Asset

In February, 2021, State Bank of India became the first Indian bank to tie up with JP Morgan to use its blockchain technology 'Liink' to speed up overseas transactions. This will reduce the time taken to resolve issues related to cross-border payments from a few days to a few hours. Despite the wide uses of cryptocurrencies and blockchain, there is little discussion beyond price and financial speculation.

"While cryptocurrencies are recognised as new monetary systems and financial networks, public blockchain networks they secure can be used to power diverse use cases and create new applications across industries," notes a WEF booklet. It highlights a non-exhaustive list of companies, protocols and projects that represent the diversity of use cases that cryptocurrencies and networks they power can enable. "It is not just a speculative vehicle. That's a misconception. Actual implementations are occurring globally," says Reddy. Banks have thousands of people enabling and approving transactions. Blockchain, says Sumit Gupta, Co-founder, CEO, CoinDCX, allows all this without involvement of people.

While the debate over cryptocurrencies continues, the fact is that India needs blockchain. Adopting cryptocurrencies with adequate checks and balances can ensure it is in sync with the world. That's a decision that the government needs to take quickly. **BT**

@avn_kaur

YOGI IN MISSION MODE TO

Coronavirus infection was at its peak on 30th April during the second wave of COVID-19 in Uttar Pradesh. And it was the same day when Covid-19 test report of chief minister Yogi Adityanath fighting this pandemic from the last 2 weeks came negative. Immediately, Yogi Adityanath came into action with the mission to save the lives of people. He prepared the strategy to save the people from the pandemic and at the same time started inspecting hospitals and visiting villages. He organized team 9 comprising senior officials at state level and on the same line constituted a team 9 in every district to strengthen the fight against Coronavirus. The strategy of trace, test and treat broke the chain of COVID-19 infection. It was the result of the perfect strategy of Yogi Adityanath that within 35 days of reaching its peak the COVID infection rate in the state declined to 0.2%. Along with saving the lives of citizens of state Yogi Adityanath is also fighting on war-footing to save the livelihood of people during Covid Times. After controlling the second wave of Corona, Yogi has started the mission of strengthening health services in the state so that the possible third wave can be effectively controlled in time.

The speed of COVID-19 infection was curbed swiftly because of the successful decisions taken by head of the state Chief Minister Yogi Adityanath. Active Covid cases have reached below 600 in all districts of a state because of the day and night efforts of Yogi Adityanath. That is why the success of the UP COVID-19 model of Yogi is being discussed in other states also. When the covid cases reached its peak in April in the state, Chief Minister Yogi Adityanath emphasized on supply of Oxygen and medicines to all government and non-government hospitals, expansion of beds, testing and vaccination. The result of these efforts is that within one and half months the recovery rate from coronavirus has reached above 98% in the state. 'UP model' is number one in the country because of the Yogi's strategy of aggressive testing and contact tracing. State is conducting 10 times more COVID-19 tests daily than the standard set by the World health organisation. WHO has given a target of 32,000 covid tests daily but more than three lakh tests per day are being conducted in the state. 31 contact sample tests are being conducted on each positive case in the state which is above the WHO standard. WHO also praised the micro management of Uttar Pradesh during the first wave and second wave of COVID-19. The micro containment zones formed after directions of CM Yogi have broken the chain of infection. Rapid response teams and Surveillance committees have tested a large number of people in villages. After 31st March, 70% covid tests have been conducted in rural areas of state. Uttar Pradesh has conducted the highest number of COVID-19 tests in the country and more than 5.41 crore samples have been tested so far.

BOOTH NO.- 1
कोविड.19 वैक्सीन
द्वारा

'MISSION JUNE' CAMPAIGN OF YOGI BECAME PRECEDENT

Uttar Pradesh has become the first state of the country to provide the fastest and highest number of vaccinations to the youth. CM Yogi launched a free vaccination campaign in the state to provide vaccines against COVID-19 to the people aged between 18 to 45 years. The special vaccination campaign launched under 'Mission June' name is getting tremendous success across the state. Despite being the highest populated state, more than 58 lakh doses of COVID-19 vaccines have been given to the beneficiaries of this age group under the leadership of CM Yogi. To expedite the vaccination campaign CM Yogi Adityanath has directed to increase the present vaccination number of 4 lakhs doses daily to 5 to 6 lakh doses per day and on the other hand target has been given to increase the daily vaccination capacity to 10 to 12

SAVE LIVES AND LIVELIHOOD

> **The way Uttar Pradesh government is distributing medicines door-to-door in cities and villages by creating micro-containment zones on the principle of 'where sick-there treatment', is a very good initiative."**
>
> ***— Narendra Modi, Prime Minister***

lakhs per day in the month of July. After completion of 'Mission June' Chief Minister Yogi Adityanath has decided the target of administering 10 crore vaccine doses in the next three months with daily inoculation capacity of 10 lakh doses.

SUPERVISION OF TREATMENT

Chief Minister Yogi Adityanath gave a big responsibility to the expert doctors of SGPGI Lucknow for the treatment of black fungus disease. This team is monitoring the procedures for the treatment of black fungus and deciding the line of treatment according to every patient. These expert doctors gave suggestions to the government to deal with black fungus problem after intense study. These suggestions mentioned two separate drugs isavuconazole and posaconazole for the treatment of black fungus apart from amphotericin b injection. Chief Minister Yogi Adityanath has ordered to ensure the availability of these two drugs in the state. Along with it Government has ordered officials to maintain proper supply of amphotericin b injection. The number of total functional, under construction and permitted oxygen plants in the state has now reached 436, out of which 100 oxygen plants are functional.

YOGI GOVERNMENT MAKING ALL POSSIBLE ARRANGEMENTS FOR TREATMENT

DOOR TO DOOR SURVEILLANCE

More than 73000 active monitoring committees are conducting door to door surveillance in Uttar Pradesh. With this surveillance system, corona screening has been conducted over a population of 18 crore people out of the total 24 crore population of the state and treatment has been provided to the patients found infected in this surveillance.

EMPHASIS ON SANITISATION

To break the chain of infection campaign for fogging, sanitisation and cleanliness is being conducted in rural and urban areas during the weekend restrictions. Around 86700 workers in rural areas and 82000 workers in urban areas are involved in this campaign.

WOMEN VACCINATION CENTERS

From 7th June special 'pink booths' for women vaccination have been established in each district of the state. Two women special vaccination centers have been established in district women hospitals and joint hospitals. In Community Health Centers at block level two different vaccination centers have been formed especially for women.

FEVER CLINIC

Chief Minister Yogi Adityanath has ordered to start fever clinics and flu clinics at all divisional and district hospitals, community health centres and primary health centres. These centres are a must where patients with symptoms of COVID-19 will be tested and provided proper treatment.

MEDICINE KIT

The Yogi government has started the campaign for door-to-door distribution of medicine kits from 15th June for the treatment of viral fever in children with the help of more than 73000 monitoring committees active in the state.

TELECONSULTATION SYSTEM

Teleconsultation facility has been started in District Hospitals and Medical Colleges of state. Through this facility general patients are getting better health services while being at their homes. Such a mechanism has been activated that only the serious patients should reach hospitals during Covid times.

AYUSH KIT

After the direction of Chief Minister Yogi Adityanath, Ayush department has reached approximately 23 lakh people in the state during Covid times. The department has distributed free covid kits to more than 20 lakh people. Apart from that more than 3 lakh people have taken tips from social media platforms and Ayush kavach app.

DRY RATION

On directions of CM Yogi dry ration is being distributed from 164714 Anganwadi centres to 14799150 beneficiaries which includes malnourished children and pregnant ladies. The dry ration scheme started by the government has provided employment to 630000 women also.

CHILDREN WILL BE SAVED FROM CORONA ON THE LINE OF ENCEPHALITIS

Experts are saying that the impending third wave of Covid will be more sensitive towards children. Keeping in mind these apprehensions the government under the leadership of Chief Minister Yogi Adityanath has started preparations on war-footing to save children from any such kind of impending wave. Just after reaching at the helm of affairs in March 2017, Chief Minister Yogi Adityanath started his efforts on war footing to stop the untimely death of children from Encephalitis. Infrastructure of health services were strengthened at PHC (primary health centers) and CHC (community health centers) keeping in mind the encephalitis disease. Special awareness campaign regarding cleanliness and hygiene was launched in three dozen sensitive districts of eastern Uttar Pradesh for containment of the disease. The result is that encephalitis is almost on the verge of ending in these districts. Now the experience gained during the elimination of encephalitis is being used by the Yogi Government to save the children from the third wave of COVID-19. The pediatric intensive care unit (PICU) project, which played an important role during control of encephalitis, is now implemented across the state to save the children from the possible third wave.

Chief Minister Yogi Adityanath has directed to prepare 100 bedded ICU for children in all medical colleges of state. Chief minister has also asked to set up 100 bedded ICU at every division level and 25 bedded ICU at district hospitals. Along with it directions have been given to officials for arrangement of necessary and skilled human resources in a certain time period. The doctors of Baba Raghav Das medical College Gorakhpur and King George medical University Lucknow, who have an experience of four decades in saving the children from deadly disease encephalitis, will impart training to other doctors and paramedical staff of the state for operating the PICU. It should be kept in mind that more than 95% decrease has been registered in the deaths of children from encephalitis, which was taking lives of children in around 3 dozen districts of states especially in all districts of Gorakhpur and Basti division from the last four decades.

CONSOLIDATED EFFORTS OF AYURVEDA HOMEOPATHY AND UNANI

Consolidated efforts have started to save the children from the probable third wave of Covid. Chief Minister Yogi Adityanath has asked experts of Ayush to treat the infected patients of covid with age-old traditions of Ayurveda. The Ayush department has also started preparations to fight with the impending third wave of covid. Ayush department is going to form help desks in all its hospitals which will be focused on the health of children. Along with it Ayush kavach app will also add a new feature which will be related to the health of children. This feature will answer various questions like how to take care of the health of children according to the different seasons, how to increase the immunity of children and which home remedy can improve their health. Ayush department is continuously distributing Kadha and ayurvedic medicines for home isolated patients. Ayush kavach mobile app has also become quite popular among the public during covid period. Currently more than 3 lakh people are using it. Ayush department has around 2104 hospitals across the state, out of which 8 big hospitals are in cities like Lucknow Banaras and Pilibhit. All these hospitals will have a help desk focused on the health of children where doctors of Ayush department will provide information to the general public about the health of children and how to increase their immunity. Apart from it, medicines which will increase the immunity of children will also be distributed.

YOGI GOVERNMENT TO TAKE CARE OF THE CHILDREN WHO LOST THEIR PARENTS DUE TO COVID-19

The Yogi government has started working on implementation of ‘Uttar Pradesh Mukhymantri Bal seva Yojana’ at ground level after it was approved by the cabinet. The scheme is meant for the children who lost either both their parents or one of them in covid period which will be counted from March 2020. Responsibility has been fixed of the officials who will implement this scheme to the ground level in the districts and do listing of children and

terms of eligibility. The motto of the scheme is to provide immediate help to the children in distress and save them from going into the wrong hands. The scheme takes complete care of the health, education and maintenance of the children. District level task force will identify the legal guardian of the beneficiary and the district level child care unit and child welfare committee will also keep an eye over the overall development of the children. Only original bonafide citizens of Uttar Pradesh will get the benefit of this scheme. All children whether they are biological or adopted, of any single family can take the benefit of the scheme. The categories of the children who will get the benefit of the 'Uttar Pradesh Mukhymantri Bal Seva Yojana' has been decided. The scheme will be available for those children aged up to 18 years whose both mother and father have died in the pandemic or those children whose mother or father had died before 1 March 2020 and the other remaining parent mother or father died in covid period or those children whose both parents had died before 1 March 2020 and the legal guardian died during covid period. Those children will also get the benefit of the scheme who are aged up to 18 years and one of their parents whether mother or father died during covid period and the person who died was the main earner of the family and the other parent which is currently alive but his or her earnings along with the total yearly income of the family is not more than Rs 3 lakh.

HOSPITALS ARE GETTING READY TO DEAL WITH THE THIRD WAVE OF COVID-19

COVID CARE CENTRE

4 community health centres situated in far flung areas of all districts of state are being converted into L1 category covid care centres. At these health centers numbers of beds are being increased from 30 to 50. All beds will have the facility of Oxygen and out of these 10 beds will remain reserved for pediatrics.

OXYGEN CONCENTRATOR

The Yogi government is purchasing 17000 oxygen concentrators to provide oxygen supply to all beds of those CHCs which are being converted into L one category covid care centres. Health department will fix the oxygen concentrators in all hospitals by the end of June.

OXYGEN GENERATION PLANT

Sugar mills of Uttar Pradesh are setting up oxygen generation plants in hospitals in 40 districts and in 35 districts this work is being done through distilleries. These plants will be made in more than 100 L1 covid care centers which are being established in rural areas. They can provide oxygen 24/7 to 100 patients at a time.

DEPLOYMENT OF DOCTORS

Seven doctors will be deployed in each Covid Care Centre which is being prepared in rural areas. Out of these, two will be emergency medical officers, 1 medical superintendent and 4 specialist doctors of different fields. 12 medical staff including 6 nurses and 4 pharmacists will also be deployed.

TRAINING PROGRAM

Chief Minister Yogi Adityanath has directed to impart training of covid vaccination to the trainee nurses of all nursing colleges of the state. 3-day training program has been initiated to train the doctors and paramedical staff for operating the pediatric intensive care unit.

RECRUITMENT OF DOCTORS

The Yogi government has started the procedure for recruitment of 3620 doctors under the medical and health services cadre PMS. Maximum number of 600 pediatricians will be recruited and 590 posts are for general physicians and the same number of posts for general surgeons and gynecologists.

DISASTER EXPERTS

The Yogi government has decided to appoint disaster experts on contract basis in 62 districts of state to deal with any kind of disaster. They will get a remuneration of 50,000 rupees per month. All those experts who were working in 13 districts of state have been given an extension of one-year service.

PROJECT ELDERLINE

In UP, the initiative of Chief Minister Yogi Adityanath is proving to be very helpful for the elderly who are separated from their loved ones and forced to live on the road and footpath. On getting information on the toll free helpline number 14567 started in UP under Project Elderline, many such people are being helped every day.

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CM YOGI BECAME SUPPORT OF EVERY NEEDY DURING COVID PANDEMIC

Global pandemic covid affected every class of the society. Since the second wave was 30 to 50 times more infectious than the first one therefore its impact was also accordingly. This unprecedented and unexpected pandemic has hit the deprived section of society mostly which depends completely on the daily income of its family head. This section includes street vendors, small roadside shop owners, rickshaw and three wheeler pullers, barbers, washer men, tailors, cobblers, and fruits and vegetable vendors. Apart from it a large portion is of those labourers who are associated with construction work. During the first wave of covid infection also Chief Minister Yogi Adityanath came forward for every possible help of this most deprived section of the society. This continues during the second wave also. To safeguard the life and livelihood of people during covid pandemic financial assistance of 1000 rupees has been provided to those working in urban areas as daily wage worker like Street vendors, small shopkeepers, street shop owners, daily labourers, rickshaw and e rickshaw pullers, labourers and traditional workers like barbers', washer man, cobblers, confectioners. This is a great support for them during this emergency period. This assistance has given relief to around 91 lakh poor people. During the first phase of covid pandemic around 11 lakh Street vendors got 1000 rupees as financial assistance. In the next phase around 80 lakh registered and non-registered labourers were also given this facility. Uttar Pradesh was the first state which provided this financial assistance through online mode to Street vendors, rickshaw pullers, labourers, coolies and daily wage workers. Later many state governments also followed the suit. Workers from the organised sector got this assistance two times and the workers from the unorganised sector received this financial assistance one time.

GOVERNMENT IS MAKING ARRANGEMENT OF FOOD GRAINS FOR POOR

To give relief to the needy and poor people in conditions generated due to covid pandemic, the state government is providing 2 kg rice and 3 kg wheat per unit free of cost for 3 months to the holders of Antyodaya and ration card holders. In this way per unit 5 kg free of cost food grain is being provided to the needy persons. This is benefitting around 15 crore population of the state. This ration is in addition with the central government's announcement of free ration. On the other hand, Prime Minister Narendra Modi has already announced to extend the present help of free ration under PM Garib Kalyan scheme to the month of November. This announcement is going to benefit maximum to Uttar Pradesh. In Uttar Pradesh the beneficiaries of this scheme are around 15 crores. Last year during covid period, the government provided financial assistance and free ration to each member of the family of all poor people, people under Antyodaya scheme, construction labourers, rickshaw pullers and Street vendors. Along with it, the government abolished the necessity of ration cards and provided ration two times in a month, once under Pradhan mantri Garib Kalyan scheme and second time through public distribution system. This should be kept in mind that Chief Minister Yogi Adityanath has been committed towards poor people from the beginning. He has announced quite earlier that wherever the labourers will work their children will read in the nearby Atal boarding school. UP has also created a record in the government procurement of food grain which is later distributed among poor people. The Yogi government is making records every year in the purchase of food grains. Over 55 lakh metric tons of wheat has been purchased in Uttar Pradesh till date which is a record. Payment has been made directly into the accounts of more than 12 lakh farmers for wheat purchase in the state. The procurement of food grain is continuing.

COMMUNITY KITCHEN MODEL PROVIDING RELIEF TO POOR

Uttar Pradesh has become a state which is providing free of cost cooked

Gauri Shankar, a resident of Varanasi, got housing under PM Awas Yojana (Urban)

food daily to lakhs of people during covid period. The positive step taken by Yogi Chief Minister Yogi Adityanath to support the needy persons by opening community kitchens in all districts of state with the motto that no one should sleep empty stomach in the state and daily wages must not face any problem of cooked food has become great support to the needy people. Government has started 416 community kitchens in 75 districts of the state. Food packets are being provided to people free of cost with the help of these government community kitchens. Many private institutes are also voluntarily associating the government in this initiative. They have started operating 158 community kitchens in the state. 416 government community kitchens have provided food packets to 513730 people in 6116 areas and mohallas of the state till date. Non government organizations are also continuously making efforts to provide free of cost food to poor people. 158 community kitchens in the state are operated by such organisations and they have distributed food packets to 604463 people till date. They have distributed food packets to the 604990 needy people in 3145 mohallas to provide them one square meal. Uttar Pradesh is also on the first place in comparison with any other state of the country in operating such a large number of community kitchens and providing food to lakhs of people during covid period. People have also taken a sigh of relief because of the efforts of the government. Government has not let the hunger strike them during covid curfew. Government has also started community kitchen service for the attendants of the patients admitted in covid hospitals so that during treatment their relatives can get proper cooked food. Taking this step forward all municipal corporations of the state have also started community kitchens through which food is being provided to all needy persons in the mohallas and colonies in urban areas. After the appeal of Chief Minister Yogi Mayors, cooperators and employees of many municipal corporations are actively involved in this work.

FAST MOVING ON THE PATH OF DEVELOPMENT DURING COVID TIMES ALSO

INVESTOR'S CONFIDENCE

During covid times also investor's confidence remained intact in Uttar Pradesh. During this crisis period also the state received 96 investment proposals worth rupees 66000 crore. Out of these, the procedure of land allocation has been completed for investment proposals of 8 investors worth 16000 crore rupees.

DEDICATED HELP DESK

After directions of the Chief Minister, continuous communication is being maintained with investors and all possible encouragement and facilities as per the policies are being provided to them. The dedicated helpdesk established last year for the convenience of investors is being operated actively.

LOAN DISTRIBUTION DOUBLED

More than double the amount of loans were distributed compared to last year under one district one product financial assistance scheme. During this period loans worth 380 crore rupees were provided to artisans and entrepreneurs along with providing them the margin money of 94.60 crores.

100% PROGRESS

Working in a systematic manner, 10 days free training and free tool kits were made available to artisans and handicraft workers under ODOP training and tool kit scheme during lockdown which is hundred percent completion of the target of 16 thousand set during last fiscal year.

OXYGEN POLICY

To make the state independent in the field of industrial and medical oxygen Yogi Government has implemented Uttar Pradesh oxygen production promotion policy 2021. Because of the attractive provisions of the policy many reputed companies related to oxygen production have shown interest in setting up their plants in Uttar Pradesh.

COVID HELPDESK

More than 1,14000 covid help desks have been established in industrial units and institutes. More than 6700 beds are also established in 2719 covid care centres. Chief minister has directed that all established covid help desks and covid care centres must operate continuously.

MGNREGA EMPLOYMENT

Employment under MGNREGA scheme has increased during the second wave of covid. While only 249428 labourers were working in 17980 gram panchayats on 10th May, the number increased to 1408615 on 6 June. 448 crore rupees were paid as wages to labourers between 10th may and 6 June.

MY VILLAGE-CLEAN VILLAGE

The Yogi government launched a 10 days 'Mera Gaon, Corona Mukt Gaon' campaign in all revenue villages of the state from 9th June. Under the scheme soak pits and compost pits will be constructed for liquid and solid sewage management in every revenue village.

Gautam Adani,
Chairman, Adani group

PHOTOGRAPH BY UMESH GOSWAMI

Corporate

Adani's Valuation Binge

Stocks of Adani group companies have skyrocketed in the last one year, making Chairman Gautam Adani the second-richest Asian. However, the group's finances are still to catch up, questioning the rationale behind the meteoric rise

BY NEVIN JOHN

In June 2020, the board of Adani Power decided to delist the company whose share price was languishing at ₹38 against its August 2009 listing price of ₹100. The low price was affecting fundraising and growth plans. The board set the floor price for delisting at ₹33.82 and has been waiting for approval from stock exchanges. However, over the last seven months — December 2020 to June 2021 — the company's share price surged around 300 per cent, pushing the scrip to ₹166.

Shares of five other Adani group companies grew three to 10 times in the last one year until June 11, 2021. Market value of Adani Green Energy (AGEL) increased to ₹1.9 lakh crore (as on May 31, 2021). Barring Adani Power (₹57,000 crore), each of the other group firms' market cap crossed ₹1.7 lakh crore by June 11. Aggregate market capitalisation of the six entities stood at ₹9.5 lakh crore. The rise in market value propelled group Chairman Gautam Adani (the family owns 56-75 per cent in listed entities) to being Asia's second-richest man, after Reliance Industries' Mukesh Ambani. Adani's wealth shot up to $77 billion.

The spike in Adani group stock prices was, however, highly unusual. They grew 122-819 per cent during January 2020-June 11, 2021, while the Sensex and the Nifty rose 27 per cent and 30 per cent, respectively.

Adani group did not respond to *BT*'s questions on the unusual rise in share prices. But here's how the group reasons out the share price rise. In a recent public statement, it said Adani Ports & SEZ handled 247 million metric tonnes (MMT) of cargo, registering a compounded annual growth rate (CAGR) three times higher than the industry. "It has best in class EBITDA margin of 70 per cent and has registered volume CAGR of 10 per cent during the last five years," the statement said. For Adani Green Energy, the EBITDA margin is 89 per cent. Adani Transmission operates the largest private network in India. Adani Electricity Mumbai, a subsidiary of Adani Power, distributes power to over 3 million homes in Mumbai. Adani Total Gas, which has presence across 38 geographical areas, registered 41 per cent EBITDA. Adani Enterprises, which witnessed 10 times growth in share price in the last one year until early June, incubates new businesses such as airports, roads, data centre and solar manufacturing, besides enhancing its FMCG portfolio.

But, industry experts and observers found it difficult to comprehend the price surge, putting a question mark on the valuation of Adani group companies. Especially when the group's market capitalisation crashed by over ₹1 lakh crore on June 14 on incorrect reports of the National Securities Depository Ltd (NSDL) freezing the accounts of foreign portfolio investors who hold a vast majority of their portfolio in Adani group firms. Even though NSDL later clarified to Adani group about the inaccuracy of the information (it said the three accounts were 'active'), retail investors have since pulled down the prices of Adani Power, Adani Transmission and Adani Total Gas by 18 per cent as on June 18. 2021. Chairman Gautam Adani lost almost $10 billion in the four days of trading since June 14, bringing him down to the third spot in the Asian wealth ranking.

Some analysts say the dip in share prices is due to a correction since group firms were highly over-valued compared to peers. For instance, share prices of three Adani group companies in the power sector— Adani Power, Adani Green Energy and Adani Transmisssion — have jumped 200 per cent to 600 per cent in the last one year, and the aggregate market cap of these companies zoomed to ₹4 lakh crore as on June 11, 2021. Rival Tata Power Company

Adani Enterprises

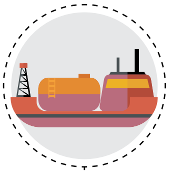
Solar photovoltaic manufacturing at Mundra; road and rail construction; defence and aerospace; edible oil and foods production (850 plants); airports (holds 23.5 per cent stake in Mumbai airport, awarded the rights to modernise and operate six others — Ahmedabad, Lucknow, Mangaluru, Jaipur, Guwahati and Thiruvananthapuram)

Adani Green Energy

Solar power: 3,023 MW in operation; 8,150 MW under construction

Wind power: 497 MW in operation; 1,430 MW under construction

Hybrid power: 2,290 MW under construction



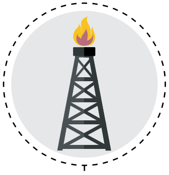
Adani Ports & SEZ

Operates six major ports (Mundra, Dahej, Kattupalli, Krishnapatnam, Hazira and Dhamra) and four terminals

Adani Power

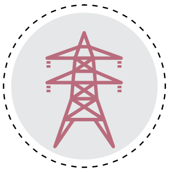
12,400 MW

Of coal-fired capacity in operation; plans to add another 7,000 MW



Adani Total Gas

Operates city gas distribution networks in Ahmedabad and Vadodara (Gujarat), Faridabad (Haryana) and Khurja (UP); A consortium of Adani Total Gas and IOC has received distribution rights for Allahabad, Chandigarh, Ernakulam, Panipat, Daman, Dharwad and Udham Singh Nagar



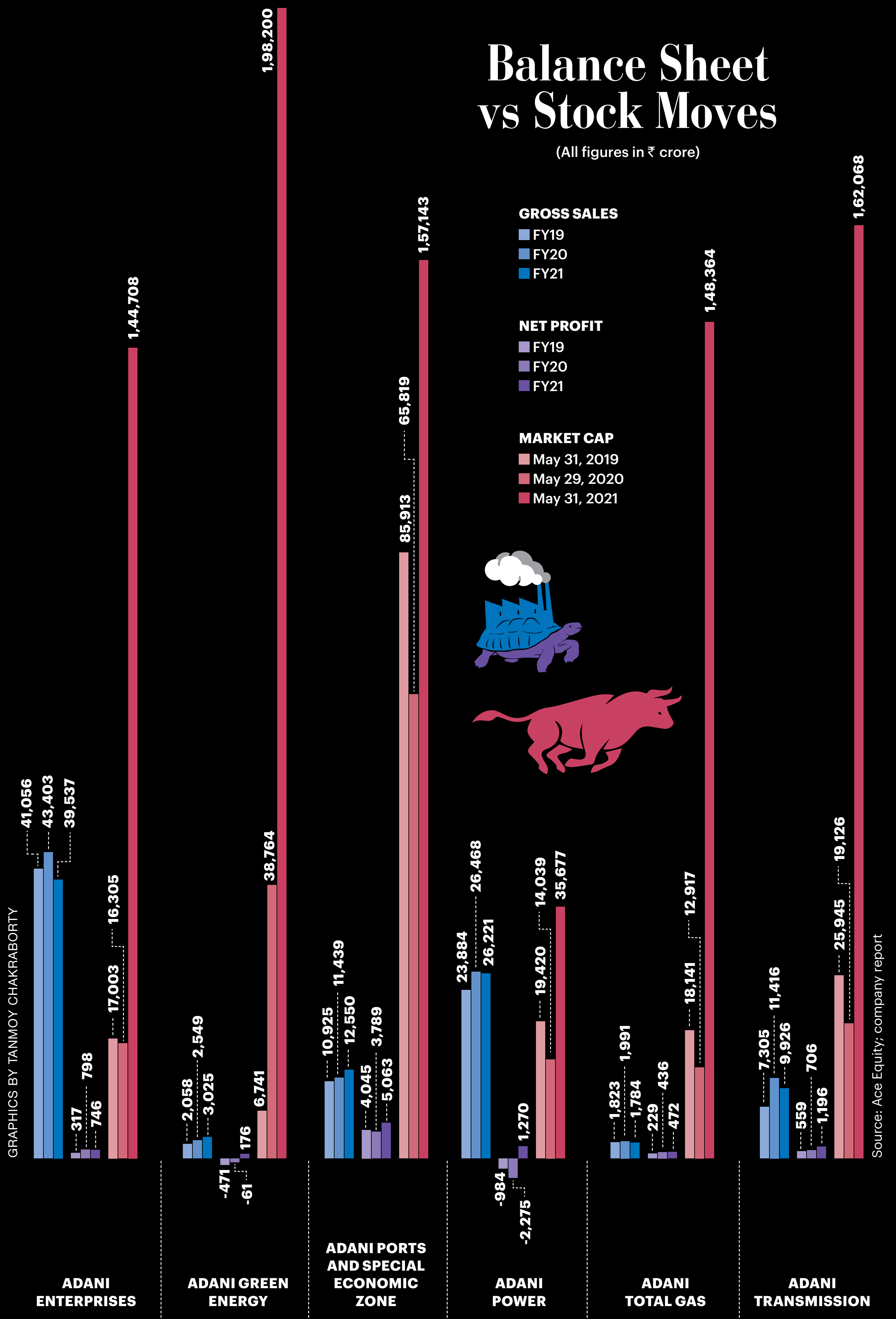
Adani Transmission

17,200 circuit kilometres

Of transmission lines and power distribution in Mumbai

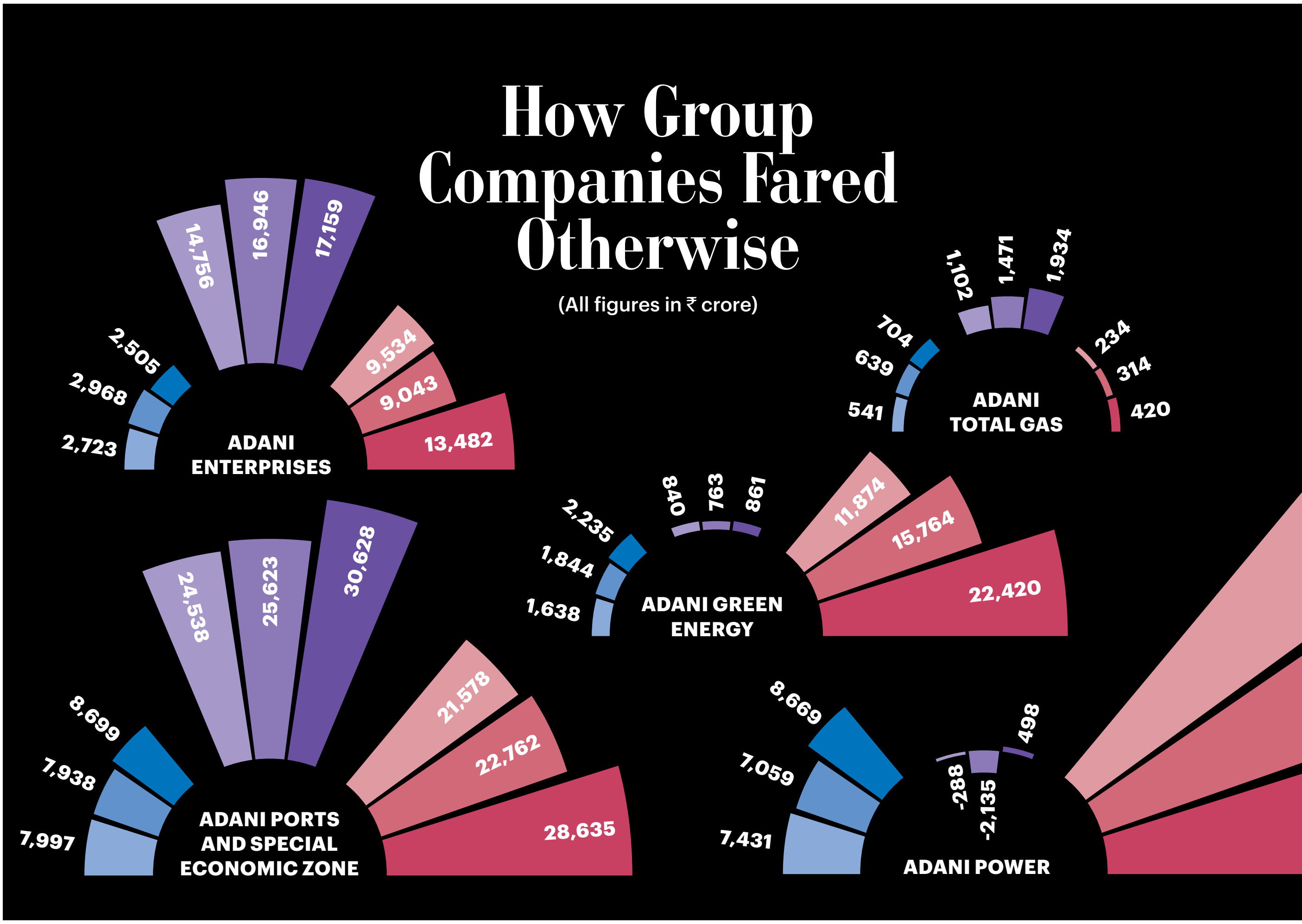
Balance Sheet vs Stock Moves

(All figures in ₹ crore)



GRAPHICS BY TANMOY CHAKRABORTY

Source: Ace Equity; company report



How Group Companies Fared Otherwise

(All figures in ₹ crore)

(TPCL), which operates in all the areas of the three Adani companies, witnessed nearly 200 per cent rise in its share price in the one year since June 10, 2020, but its market value was still one fourth at ₹40,000 crore on June 11, 2021. JSW Energy has seen a 235 per cent rise in share price and its market value was ₹27,000 crore during the same period.

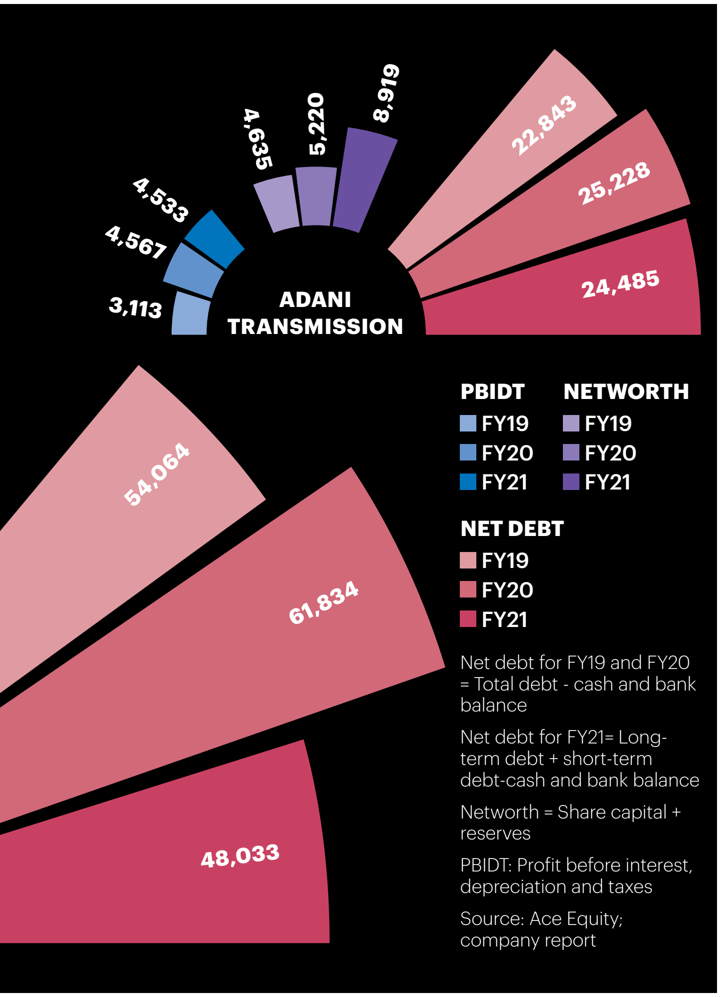
The three Adani companies own coal-fired, solar and wind power projects with around 16,000 mega watt (MW) capacity and 17,200 circuit kilometres (CKm) of transmission lines and distribution rights in Mumbai. The three posted an aggregate net profit of ₹2,642 core on combined revenue of ₹39,172 crore in FY21. But these companies also had gross and net debts of ₹98,853 crore and ₹94,938 crore, respectively, in FY21. Rival Tata Power Company has 12,808 MW of generation capacity (30 per cent from renewable), 3,531 kilometres of transmission network and distribution rights in Delhi, Mumbai, Ajmer and Odisha. The company, which posted a net profit of ₹1,439 crore in 2020/21, has a debt of just ₹36,000 crore.

A big surprise is Adani Total Gas, valued at ₹1.48 lakh crore on June 18, 2021. It reported ₹471-crore profit in FY21. In comparison, its much-larger peer and the more profitable Gujarat Gas had a market cap of ₹36,921 crore, though it generated a profit of ₹1,275 crore. Indraprastha Gas, which posted a profit of ₹1,249 crore, had a market cap of ₹37,000 crore.

Valued at ₹9.5 lakh crore before the crash, the Adani group reported an aggregate net profit of ₹8,922.93 crore in FY21. Its gross and net debt stood at ₹1.48 lakh crore and ₹1.37 lakh crore. Mukesh Ambani's Reliance Industries (RIL), which generated a profit of ₹53,739 crore in FY21 and has zero net debt, is valued at ₹14.7 lakh crore. India's third most valuable firm, HDFC Bank, which posted ₹31,116-crore profit in FY21, is valued just above ₹8 lakh crore.

Why The Difference?

Arun Kejriwal, Director, investment advisory firm, KRIS, says market cap is a function of perception and comparison between two companies. "When you compare two companies from the same business, you compare the promoters and management, quality of assets and performance track record. Adani firms tend to get higher valu-



Net debt for FY19 and FY20 = Total debt - cash and bank balance

Net debt for FY21= Long-term debt + short-term debt-cash and bank balance

Networth = Share capital + reserves

PBIDT: Profit before interest, depreciation and taxes

Source: Ace Equity; company report

ation because of their business approach, high promoter shareholding in the companies, better financial performance and projects in pipeline," he adds.

Since promoters have a high shareholding in all Adani group firms, fewer shares are available for trade. In a demand-supply situation, when demand rises, prices of shares with lower float in public tend to rise faster. In Adani Enterprises, Adani Power, Adani Total Gas and Adani Transmission, promoters hold nearly 75 per cent stake, the upper limit permitted by the Securities and Exchange Board of India. In Adani Ports, they hold 63.74 per cent. Promoter stake in Adani Green Energy has been reduced to 55 per cent from 75 per cent in the March quarter following the sale of 20 per cent stake to French oil and energy group Total SE.

Deven R. Choksey, Managing Director, KR Choksey Investment Managers, says the Adani group is the only pure-play infrastructure conglomerate in the country. "Global investors look for longer visibility for revenue and cash flow. The group is cash surplus and generated EBITDA (earnings before interest, taxes, depreciation and amortisation) of ₹32,000 crore," he says. Investors are also attracted to the high internal rate of return (IRR) of 14-15 per cent in these companies, which is only 2-4 per cent in utility/infra companies in developed countries, he adds.

Sources, however, are concerned about a trend where promoters work with friends and friendly organisations to generate demand for shares of target companies. "Promoters usually assure a particular return to friendly associates to buy the shares of their companies. They also compensate if there are losses incurred due to the purchase," says an operator in the market. Kejriwal of KRIS says such a practice is prevalent in the market.

Sanjay Sethi, Managing Partner, Nestor Capital Consulting, believes the high momentum in the shares of Adani group firms is primarily due to the herd mentality of retail investors. "However, the market believes that the group is well funded... It is the largest acquirer of infrastructure assets even in a down market," he says.

The group is also building assets, besides acquisitions. Recently, it set up Adani Cement Industries to cash in on the construction boom. An IPO for the airport business is also on the cards, according to sources. "The group plans to hive off the airport business from Adani Enterprises to kickstart the process," a company insider said.

In short, the market value in absolute terms is misleading at least in the case of Adani companies. While analysts feel the companies are overvalued, they agree that Adani has moved at a lightning speed to find new opportunities and ink quick deals.

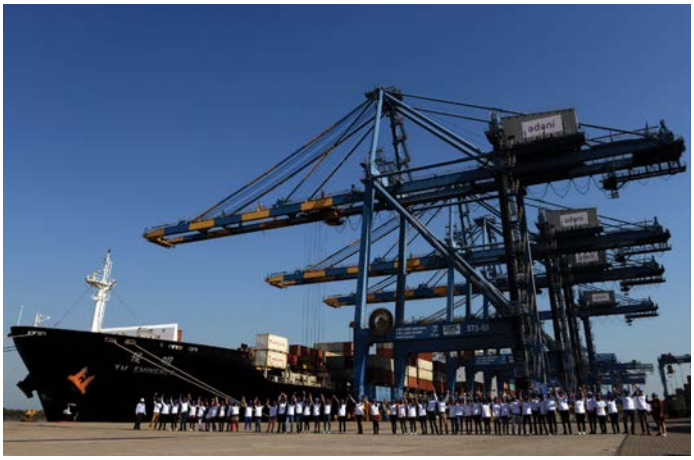
On The Cards, But...

Fifty eight-year-old Gautam Adani, who started off as a diamond sorter in Mumbai's Zaveri Bazar, earned the millionaire tag in just three years of working as a diamond broker in his early 20s. He returned to Ahmedabad to run his elder brother's plastic unit and began building infrastructure assets in the midst of India's economic liberalisation. The Adani group, which was established in 1988, saw an unprecedented jump in share prices during the 2014 general elections. Group firms' share prices jumped 100-300 per cent in the belief that Adani's meteoric rise during the then Gujarat chief minister Narendra Modi's tenure could be replicated nationally with Modi as Prime Minister.

Gautam Adani was the 10th-richest Indian with $12 billion in wealth in 2018, thanks to the listing of Adani Green Energy and Adani Gas in June that year. In 2019, he became the second-richest Indian with $16-billion wealth.

The group recently shifted focus to new opportunities such as green energy, power distribution, airports, defence, data center and city gas distribution. Most of these segments are driven by government orders/projects. To strengthen his consumer portfolio, Adani has also become aggressive in the fast-moving consumer goods (FMCG) business, which comes under joint venture Adani Wilmar.

It continued to invest when the economy was strug-



> **Adani Ports has raised its capacity to 500 MT from 245 MT in the last six years**

gling after Covid 1.0. In October 2020, Adani Port completed a ₹12,000-crore acquisition of 75 per cent stake in Krishnapatnam Port in Andhra Pradesh, and later received the Competition Commission of India's approval to acquire the additional 25 per cent from Vishwasamudra Holdings for ₹2,800 crore. The company plans to acquire 31.5 per cent stake in Gangavaram Port in Andhra Pradesh from PE investor Warburg Pincus for ₹1,954 crore. Group firms took over Dighi Port in Mumbai for ₹705 crore and Alipurduar Transmission for ₹1,300 crore during the pandemic.

The group also announced a plan to buy a majority stake in Mumbai and Navi Mumbai airports. Adani Airport Holdings (AAHL), a wholly owned subsidiary of Adani Enterprises, has acquired 23.5 per cent stake in the Mumbai International Airport (MIAL) from foreign investors for ₹1,685 crore in February. It is also acquiring GVK Airport Developers' 50.50 per cent stake in MIAL. In mid-2018, Adani Transmission took over the Mumbai electricity distribution business from Reliance Infrastructure.

However, growing through high-value acquisitions is not a good idea when there is uncertainty in the economy and demand is dipping. Airports have been empty across the world during lockdowns. The power business has been struggling for the last one decade and big power projects announced were either non-starters or ended as bankrupt. It was the infrastructure-focused companies that went bankrupt in the last three years — Jaypee, Bhushan, Reliance Communications, Lanco and ABG Shipyard to name a few.

But Gautam Adani remained unfazed. Adani Ports has raised its capacity to 500 million tonnes (MT) from 245 MT in the last six years, thanks to acquisitions. Adani Green expanded capacity to 5,000 MW from 300 MW, while Adani Transmission has more than doubled its capacity to 17,000 CKm from 7,000 CKm. Adani Total Gas caters to 38 geographical areas now, against five in 2015.

Insiders say the group's infrastructure and real asset portfolio registered an EBIDTA growth of 22 per cent in FY21, despite the pandemic impacting economic growth. The group's net debt to EBIDTA is around 3.88, which is in the first quartile among global peers in the utility and infra sector. "Timely execution, operational excellence and prudent capital management are the key pillars of the group's growth. The group attracted large pool of foreign institutional investors, who constitute a significant part of our share register. Our register also includes significant strategic investors, including Total of France and QIA (Qatar Investment Authority)," they add.

The group's EBITDA stood at ₹32,300 crore in FY21. "We expect similar growth this fiscal. While Adani Ports has given a guidance for a 11-12 per cent cargo volume growth, Adani Green's operational capacity will increase 10,000 MW by March 2022. Similarly, Adani Transmission will add 2,500 CKm by then," according to company insiders.

Adani Green recently bagged a contract for building a large solar project of 8,000 MW at an investment of ₹45,000 crore. The company aims to become the world's largest renewable energy major by 2030. It has an installed renewable capacity of 2,800 MW and wants to raise it to 25,000 MW by 2025. However, the 8,000-MW solar project announced in June last year is yet to get dedicated buyers as the fixed power purchase agreement (PPA) tariff for the project is at the higher side of ₹2.92 per kilowatt hour (kwh) for 25 years, against the going rate of ₹2.3-2.4 per Kwh. But it may expose the company to higher financial risks, say experts.

The group plans to invest $5-7 billion annually to achieve its growth targets. It will entail raising huge debt additionally on existing loans. In such a situation, group companies cannot afford cash flow disruptions. As a group depending heavily on public utility businesses, Adanis are also exposed to policy disruptions.

Investors are now awaiting the next chapter of the Adani story. **BT**

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Finance

yono

SBI's

State Bank of India claims YONO, its digital banking platform, is valued at **$40-50 billion** in just three years of its launch. Here are the nuts and bolts of the bank's biggest initiative yet

BY ANAND ADHIKARI

India's largest bank, State Bank of India (SBI), pulled out YONO — an acronym for 'You Only Need One' — app out of its hat five years ago. No one had expected the state-owned bank to take a lead in rolling out a super app for banking, investments and e-commerce. However, in just three years, YONO has notched up impressive numbers — 3.70 crore registrations, ₹21,000 crore-plus loans, 77,671-plus daily cardless transactions and leads for ₹10,000 crore home and car loans. The claimed valuation of ₹2.94-3.67 lakh crore is more than SBI's ₹3.25 lakh crore market cap. Though there has been no formal valuation, the number has been derived on the basis of lending book, banking transactions, profitability and potential. Many fintechs are valued at billion dollars-plus despite their much smaller loan books and far fewer payment transactions.

The size and scale of SBI puts YONO, an extension of the bank, on a pedestal. But its valuation is not as easy as it seems because of complexities of running a traditional bank and uncertainty about the future business model. Let us deep-dive into factors that will influence SBI YONO's valuation.

Reincarnation As Startup

SBI YONO is reimagining banking to thwart disruption by fintechs, which are gradually eating banks' lunch. A recent Federation of Indian Chambers of Commerce & Industry (Ficci) and Boston Consulting Group (BCG) report talked about 'India FinTech: A USD 100 Billion Opportunity.' There are already many billion-dollar fintechs in the market. BharatPe, a payments start-up which also lends (₹1,200 crore loan book), has reached a billion-dollar valuation in just three years. Bangalore-headquartered Cred, a credit card bill payment platform that rewards people for paying on time, has achieved a billion-dollar valuation in a similar time period. Razorpay, a digital payments facilitator for businesses, is valued at $3 billion. PineLabs, a merchant payments solutions company, is valued at a billion dollars. The number of Indian fintech unicorns will more than double over the next few years, says the Ficci-BCG report. YONO has been designed to offer customer convenience and innovative products to target customers who opt for products from players such as Cred or Pine Labs.

→ Start-Up

One of the biggest element of YONO's valuation is the pre-approved personal loan segment that it has grown to ₹24,000 crore. It is attracting thousands of leads and requests on a daily basis. Its USP is the bank's huge customer base with historical data of savings and spends based on which it offers pre-approved loans. The service could be later extended to new bank customers. The average loan size is ₹2.5 lakh. "Banking apps have an advantage as banks can provide all services. The apps can serve as a unified platform for the captive customer base without competition. The size and scale in terms of products also give them an advantage in the digital world," says S. Anand, CEO & Co-founder, PaySprint, a fintech venture.

> "We have people directly recruited from the market. We have hired engineers, MBAs. There are a lot of young people. We work according to an agile garage method"
>
> **Ravindra Pandey,** Chief Digital Officer, SBI

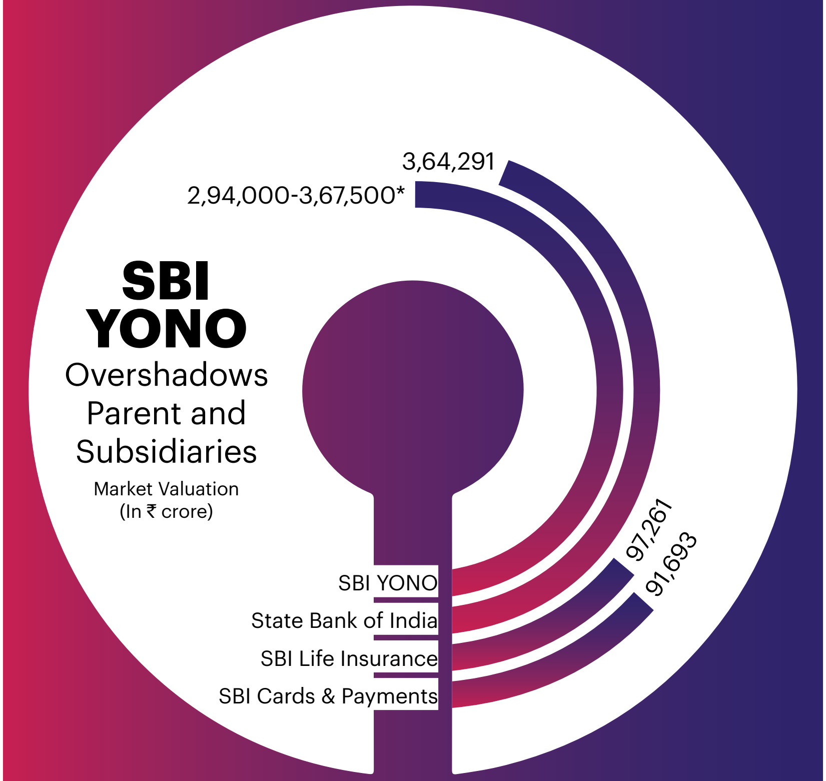
Srikanth Bureddy, co-founder of Buddy Loan, says banking apps are a convenient option for millennials & MSMEs. "A low-cost model, user-friendly interface, multiple features, quick turnaround time are the next most important factors to consider while valuing an app," says Bureddy (See *Growing YONO Numbers*).

YONO's valuation is also factoring in future loan segments. For instance, SBI is in the process of digitising the entire process for retail products like two-wheeler loans and high-end express credit. New financial infrastructure such as accounts aggregator and digital signatures will open doors for more business. An account aggregator will collect customer data from multiple banks and share with anyone who needs it for offering a banking service or a loan.

SBI YONO is also offering cardless cash withdrawal at ATMs through a one-time PIN. This has been well-received by young customers. The bank is doing 30,000-70,000 cardless transactions a day. "The ability of banking apps to lure a new set of customers or cater to the captive existing customer base will also get them a higher valuation," says Anand.

YONO will also gain from the shift in banking from the high-cost branch model of acquiring and servicing customers. Super apps like YONO would mean huge savings for banks. They would also reduce the cost of operating existing branches. "The cost of acquisition of a customer in a branch is ₹1,000-1,200," says Ravindra Pandey, Chief Digital Officer at SBI. This reflects in SBI's cost to income ratio of 52.46 per cent. HDFC Bank has the lowest cost to income ratio among large banks at 38.64 per cent; ICICI Bank is at 43.48 per cent.

Many experts, however, say YONO cannot be compared with new-age players. They say fintechs are targeting under-served customers and creating a value proposition. Fintech customers are 'new to credit' micro-entrepreneurs such as a tea stall owner or a cobbler. The loans are approved based on cash flow. The loan size is also much smaller. Second, fintechs are run by entrepreneurs who are constantly thinking about innovations and making banking seamless. "Fintechs are generally valued based on target segments (like new to credit customers) and superior credit assessment through digital tools," says a fintech founder.



SBI YONO
Overshadows Parent and Subsidiaries
Market Valuation
(In ₹ crore)

*Estimated valuation of YONO; market capitalisation on BSE for others;
Source: BSE/Bank

YONO'S REVENUE LINES

Valuation is the sum total of three metrics

- End to End Digital Banker - Online lending, payments & investments, replacing the high-cost brick and mortar bank
- Platform for other banks(BankBazaar model) - Fee income by offering YONO platform to others
- FutureTech player like GooglePay, Amazon Pay - Likely cashflows from e-commerce and other services

YONO For Others

Investment bankers are betting on YONO as a platform for other banks. This will add substantial value that is not reflected in the traditional bank set-up. YONO is currently operating largely as a lead generation platform for SBI. Due to SBI's huge reach, about 3.7 crore customers have already registered themselves with the app. "They include both existing and new customers. We also track how many are doing transactions," says Pandey. In FY21, YONO sourced leads for ₹10,000 crore retail loans, which included ₹6,000 crore home and ₹4,000 crore car loans. This shows the future potential of this cost-effective platform. "It is safe to assume that without a digital platform like YONO, these digital-savvy customers would have taken loans from other online platforms," says Pandey.

The bank has also added YONO Krishi. It has customised offerings, 15 *mandis* (online marketplaces) and Mitra (agri information and advisory services). The bank has also created YONO Business to cater to the entire life cycle of SMEs and corporates. It provides internet banking, cash management products and forex and other services for non-retail clients.

The bank is also toying with the idea of offering YONO as a neutral platform, without the SBI brand, so that it can be a marketplace for other banks to offer their services. At present, BankBazaar offers its platform to all banks to showcase and sell their products. Similarly, Policybazaar is a one-stop shop for insurance. Given that SBI is the largest bank in the country and the PSB space is undergoing consolidation, this will throw up a lot of possibilities. Old private sector and cooperative banks would also be keen to join YONO by connecting via YONO API (application programming interface) without accessing the bank's core banking platform, say experts. The marketplace model will help SBI earn a risk-free fee.

YONO IN NUMBERS

Daily Logins	Registrations	Cardless cash transactions daily	Digital personal loans disbursed	E-commerce transaction value	Agri loan sanctions
1 crore	**3.70** crore	**77,671** average	**₹21,268** crore	**₹2,285** crore GMV in Q3 of FY21	**₹10,044** crore

But the big question is; will other banks and fintechs join the SBI platform? Does SBI have superior products and services that can help it prevent customer traffic from moving to other banks?

Yono as Future TechFin Player

In the longer run, YONO could emerge as a technology giant or a techfin (technology-led financial player). It is already gearing up to face the challenge from techfin players such as Google, Amazon and Facebook that want to offer financial services. "Techfins are the real threat to the bank. Google Pay and Amazon Pay have deep pockets. They are burning cash to create a foothold in the financial services market," says a fintech player. These global technology players, armed with customer data, are keen to play the balance sheet game (lending) like banks. "Using technology and data, they can offer products that meet their customers' requirements, engage more often and provide a superior banking experience," says Suresh Rajagopalan, CEO of WIMBO, a fintech company. In fact, it is lending, not payments, where big money is made globally. "They are ready to take more risk than banks. They are already nibbling away banks' consumer base in payments," says a banking expert.

VALUATION CHALLENGES

The app is nestled within the bank and is not an independent entity

Costs and profitability figures are not known, many costs are not apportioned

Standard banking products, unlike fintechs' innovative products and small loans for underserved

Banking as a platform requires other banks and BFSI players to join

Creating entrepreneurship culture or fintech-like agile environment is a challenge

Clearly, SBI is looking at an interplay of traditional banks, new-age fintechs and techfins to help YONO go the extra mile. "In the next decade, we see a wave of financialisation. Finance would be digitalised. Banks will become just custodians and trustees of money. The rest of the things will be done by fintechs," says Raj N., founder of Zaggle, a fintech company.

New technology-led offerings and close knowledge of the customer will add to the valuation of YONO. So will customer stickiness. "For banks which have taken the technological leap, valuation of their services will not only depend upon how well they know their customers but also their lifetime value," says Rajagopal of WIMBO. "In the fintech world, valuation is done based on future benefits," says SBI's Pandey, without going into the specifics of YONO's valuation. "The valuation is actually based on future potential. It looks at customer footprint, transactions and geography-based profiles. Based on this, you can also devise a future product or service," says an investment banker. A customer's digital footprints give out a lot of information that can help the service provider get more business from him. YONO is also following this path. It has partnered with over 100 ecommerce players in more than two

“The apps can serve as a unified platform for the captive customer base without competition. The size and scale in terms of products also give them an advantage”

S. Anand, Co-Founder and CEO, PaySprint

dozen categories. At present, it doesn’t earn any money from these players. But these tie-ups help it engage with bank customers for non-banking needs. In addition, the spending data provides new information about customers’ interests, habits, etc. “It helps increase customer stickiness and loyalty,” says Pandey. These tie-ups also increase the scope for doing lending or payments business with suppliers of e-commerce companies.

However, there will be challenges on the way. Experts say any app needs a fintech entrepreneur for continuous innovation. “The bank has got a good start but the challenge is manning the app and competing with fintechs and new-age banks,” says a fintech player. The app will require focus, a management team and market talent. “Banks have huge advantages because of scale and size of their customer base and product basket. We need to see how they build on top of it (app) to retain the flavour of a fintech in terms of agility, innovation, etc,” says Raj of Zaggle.

“The challenge is only about the ability to think and create a user experience. Are you ready to hire a Flipkart CEO or any other professional? If they want to run it as a department, they will not go anywhere,” says a fintech player.

Nestled Inside The Bank

SBI YONO is not an independent entity. Many call it a department of the bank. Expert say one has to look at many factors for valuing the app. “There would be tons of downloads. But how many are active users? After active users, how many are transacting users. This is what matters,” says a fintech player.

The average revenue per transacting user also matters just as telecom companies focus on average revenue per user. “The success of a platform is known when the rubber hits the road,” says another player, adding that the finer cost and revenue details are not out in public (See *Valuation Challenges*).

Another issue is that YONO has the bank’s core banking platform at its heart. “If they have to hive off YONO, they have to apportion the cost of core banking, which will be high,” says an investment banker.

There is also no clarity on manpower, infrastructure, marketing/sales and legal costs. “YONO is a subsidised product. We don’t know the hidden expenses and costs. Will it be able to sustain as an independent entity?” asks a banker

SBI, though, claims to have a strong YONO team. There are two sides — IT and business. The business side is managed by a chief general manager supported by two general managers and deputy general managers. The final shape and strategic direction was given by McKinsey and IBM. “We have people directly recruited from the market. We have hired engineers, MBAs. There are a lot of young people. We work according to an agile garage method,” says Pandey. SBI also does apportion some costs to YONO. It has been making separate disclosures about YONO in quarterly accounts but is waiting for the right time to hive it off. On valuation, the bank prefers to keep quiet as of now. “When the time comes, you will know the valuation,” says Pandey.

Markets will wait for that with bated breath. BT

@anandadhikari

Economy

Expensive Basics

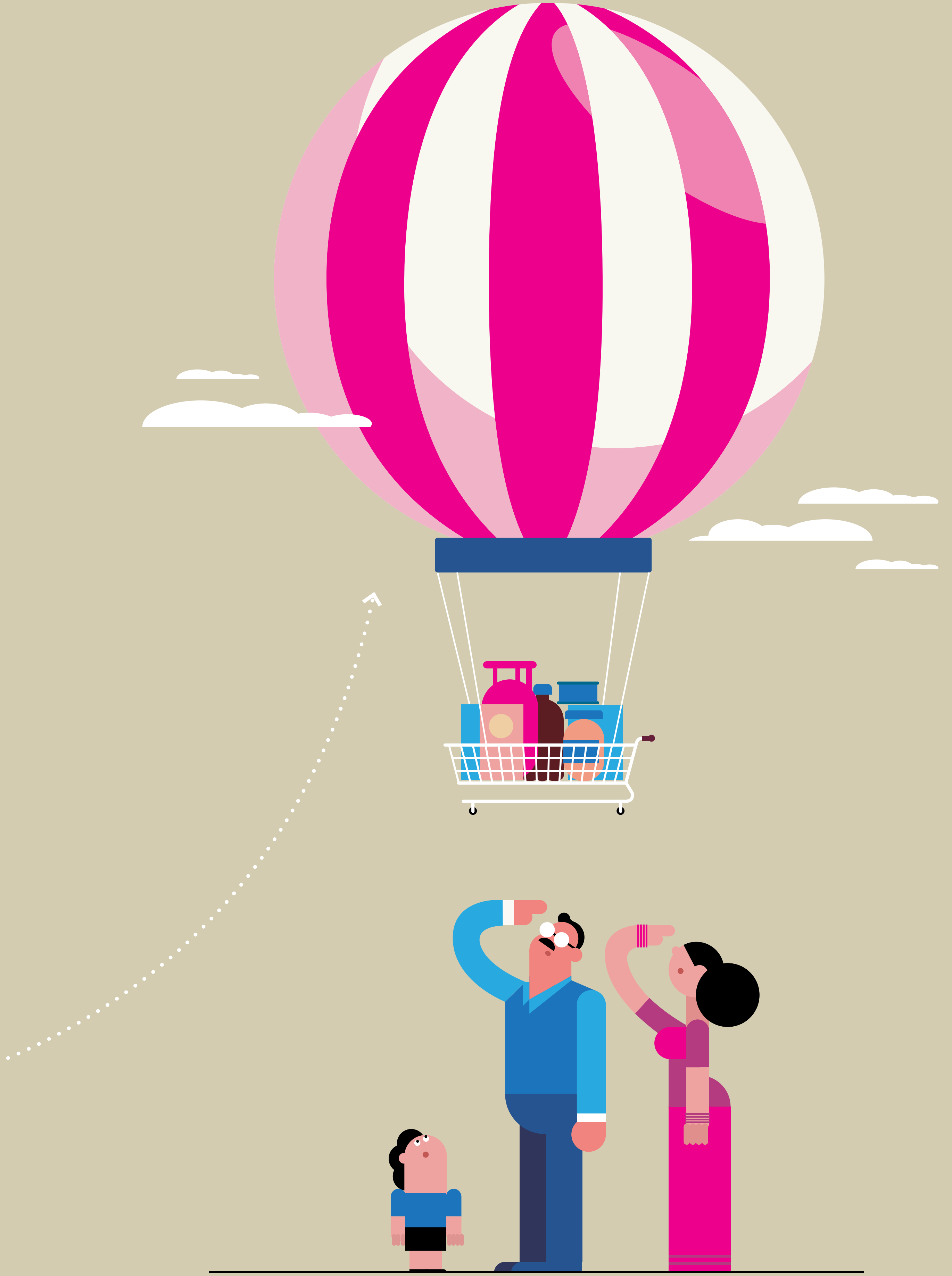
WHY AND HOW THE RECENT SURGE IN FMCG PRICES IS HURTING MIDDLE CLASS HOME BUDGETS AND COMPANY BALANCE SHEETS

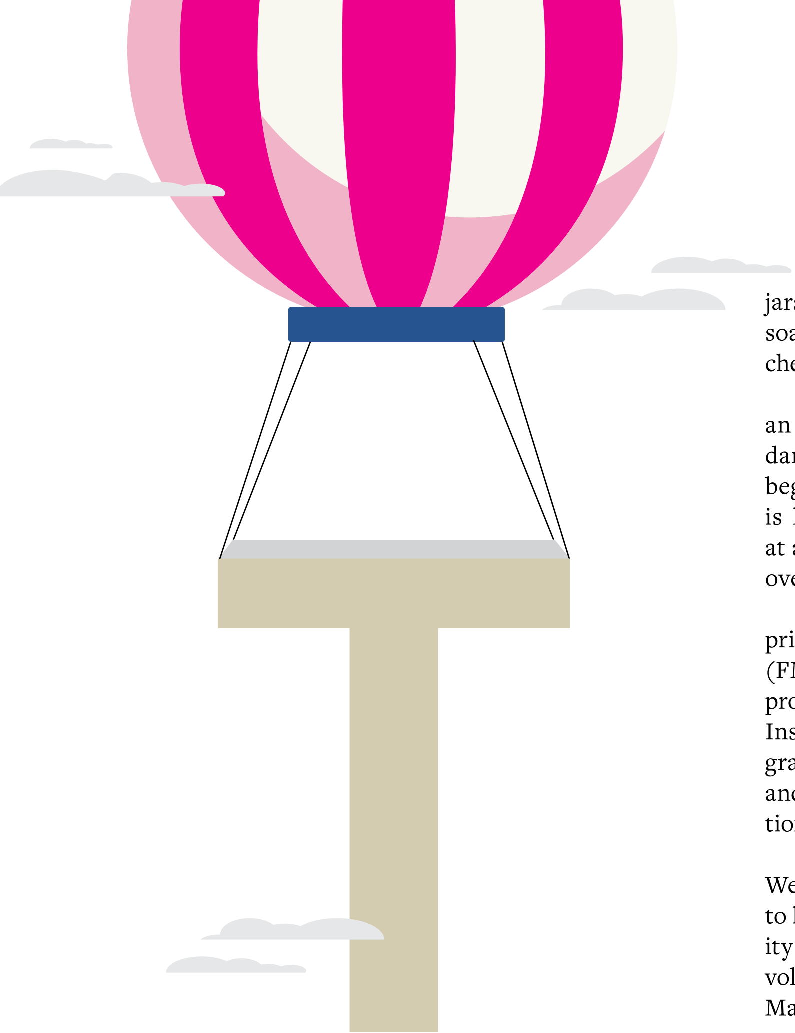
BY AJITA SHASHIDHAR AND SUMANT BANERJI
ILLUSTRATION BY RAJ VERMA

……

6.3%

Retail inflation in May 2021. It was 4.23 per cent in April





Thirty-five-year-old Kajal Roy has over the past few months been paying almost 50 per cent more for a five-litre can of edible oil. “It’s become extremely expensive. I checked out other brands but they are as expensive. One can’t run the kitchen without edible oil,” the home-maker says, while pushing her shopping cart through a neighbourhood supermarket in Mumbai. “My grocery bill has gone up substantially, but all of us are home-bound because of the lockdown, so we are hardly spending on anything else. Therefore, I am not complaining.”

In Nagpur, *kirana* store owner Rajesh Reddy has seen 70 per cent lower revenues for the past three months. He is not sure if the second wave of Covid-19 has led to a dip in consumption or it is the rise in prices of day-to-day essentials such as oil, pulses, tea, detergent and soaps that have resulted in lower spends.

“Consumers who used to earlier purchase five-litre jars of oil are buying one-litre packs. In detergents and soaps, they are either buying smaller packs or opting for cheaper brands,” says Reddy.

Covid 2.0 has not just consumed livelihoods, but an enormously high number of lives as well. This has dampened the urge to spend and consume, but as life begins to return to normal, the rise in grocery prices is hurting consumers. Commodity prices have been at all-time highs, making grocery products costlier by over 20 per cent.

Price hikes are the easiest way to counter commodity price increases. However, fast-moving consumer goods (FMCG) companies, already battling lower demand for products, are steering clear of any knee-jerk reaction. Instead, companies are squeezing margins, reducing grammage, prioritising key stock-keeping units (SKUs) and cutting down on advertising spends and distribution costs to fight inflation.

“We have not passed the entire cost to consumers. We have taken a hit on margins. There is a fine balance to keep between impact on the consumer, price elasticity and competitive dynamics. We have to make sure our volume momentum also grows,” explains Sunil D’Souza, Managing Director and CEO, Tata Consumer Products.

Rising Prices

Oil has been the worst hit. According to data compiled by the Department of Consumer Affairs, prices of six edible oils — groundnut, mustard, *vanaspati*, soya, sunflower and palm — have risen between 13 and 52 per cent in the last one year, and hit a decade high last month. Mustard oil prices, for example, have risen nearly 40 per cent from ₹130 per kg (packed) to ₹184 per kg in the last one year. Similarly, soya and palm oil prices have increased by 40 per cent, while in the case of sunflower oil, the rise is steeper at over 50 per cent.

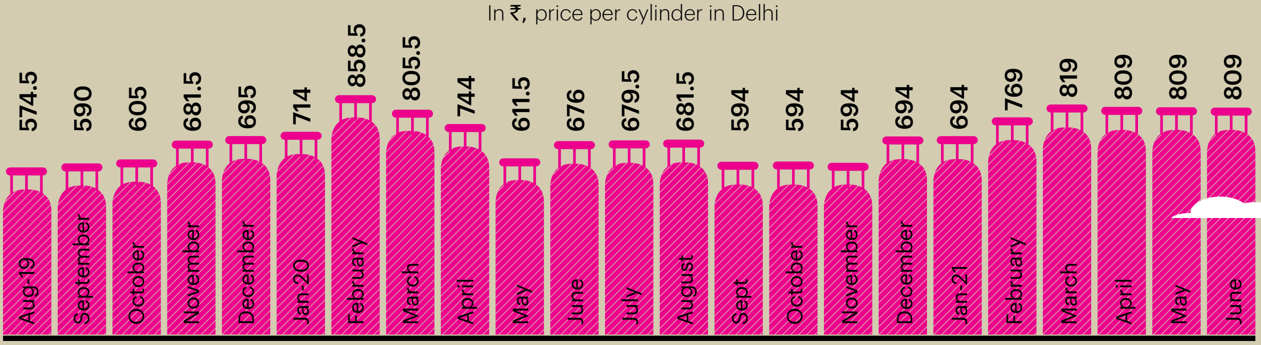
While tea prices have risen 20 per cent, *atta* is costlier by 10 per cent. Though sugar and rice have seen a moderate increase of 5 per cent and 7 per cent, respectively, *toor dal* has shot up by 19 per cent, *masoor dal* has increased by 14 per cent and *urad dal* by 10 per cent.

“Margins in commodities such as oil, pulses, rice and tea are wafer-thin and companies can’t afford to absorb them. Bulk of the price hikes have happened in commodity categories. As far as brands are concerned, most companies are yet to pass on price hikes to consumers. They are waiting for the lockdown to be completely lifted,” says Arvind Mediratta, CEO, Metro Cash & Carry.

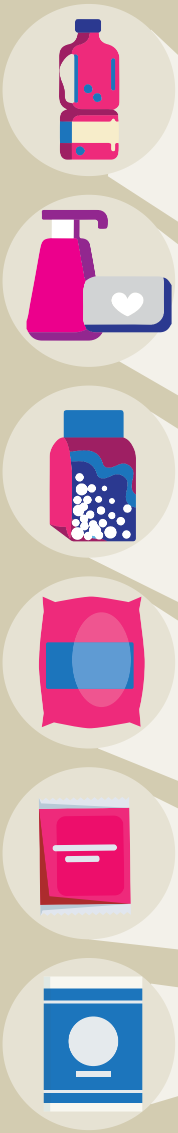
While soaps are dearer by 15-20 per cent, detergents are costlier by around 7 per cent. On the other hand, prices of biscuits and coffee haven’t increased at all. Even in soaps, prices have gone up for bigger packs and not for the smaller, economy ones. The 10 per cent increase in *atta* prices, or even tea (15-20 per cent), has largely been

LPG Prices Soar...

In ₹, price per cylinder in Delhi



... While FMCG Cost More



Category	Product	Variant	Apr 2020 price (in ₹)	May 2021 price (in ₹)	% change
Oil	Fortune	1 ltr	135	215	59.3
	Gold	1 ltr	115	180	56.5
	Ruchi Gold	1 ltr	120	170	41.7
Soaps	Santoor	100 gms	27	29	7.4
	Lux	100 gms	22	28	27.3
	Lifebuoy	125gms	22	27	22.7
Detergent	Surf Excel Easy Wash	1 kg	120	128	6.7
	Henko	1 kg	112	124	10.7
	Tide	1 kg	106	110	3.8
Rice	Raw Rice	1 Kg	52	59	13.5
	Jeera Rice	1 Kg	37	39	5.4
	Steam Rice	1 Kg	33	35	6.1
Pulses	*Toor Dal*	1 kg	81	107	32.1
	Urad Dal	1 kg	80	98	22.5
Sugar	Sugar	1 kg	33	35	6.1

Cutting Corners

When consumption is at an all-time low, a price hike is the last option for FMCG companies. Ways in which firms are trying to offer the best value include...

An 8-15 per cent reduction in discounts and schemes offered to retailers

Cutting down layers in distribution network

Since small, economy packs are price sensitive, bulk of the increase is in premium or larger packs

Prices of some brands such as Maggi haven't increased; grammage has been reduced

Focus on high-margin stock-keeping units

Rationalising packaging, logistics costs

for premium or large packs.

Another category that has bore the brunt is LPG. The price of a liquefied petroleum gas (LPG) cylinder has gone up over 20 per cent to over ₹800 in the last one year. It has doubled in the last seven years, from ₹410.5 in March 2014 (for a 14.2 kg cylinder).

The Oil Problem

India is the largest consumer of edible oils in the world. Rising incomes over the last two decades led to a change in food habits, boosting consumption of edible oils even further. Between 1993/94 and 2004/05, monthly per capita consumption of edible oils increased from 0.37 kg to 0.48 kg in rural areas, and from 0.56 kg to 0.66 kg in urban areas. By 2011/12, it had increased further to 0.67 kg in rural areas and 0.85 kg in urban areas.

However, there has been a demand-supply mismatch. According to official records, while demand for vegetable oils was in the range of 23.48-25.92 million tonnes between FY16 and FY20, supply was only 8.63-10.65 million tonnes. No wonder India has to import almost 56 per cent of its edible oil needs.

In 2019/20, import of edible oil stood at 13.35 million tonnes (worth around ₹61,559 crore). It comprised palm (7 million tonnes), soyabean (3.5 million tonnes) and sunflower (2.5 million tonnes). Major import destinations included Argentina and Brazil for soyabean oil, Indonesia and Malaysia for palm oil and Ukraine and Argentina for sunflower oil. Imports are estimated to be in the same range during Oil Year 2021 (November 2020-October 2021).

A combination of factors has come together to create a global supply side constraint, leading to an increase in prices in international markets. These include labour shortage in palm oil plantations of Indonesia and Malaysia, drought in Argentina and lower production of sunflower crops in Ukraine. On top of these, China has also been buying edible oils rigorously. As a heavy

WE USED TO HAVE SUPER-STOCKISTS, WHO WE HAVE REMOVED, **AND THAT HAS SAVED US 1.5-2 PER CENT OF COSTS... WE HAVE NOT PASSED THE ENTIRE COST TO CONSUMERS”**

Sunil D'Souza, CEO and MD, Tata Consumer Products

consumer, the average Indian household is paying the price for all of these.

“Changes in palm oil prices generally impact all edible oil prices. It has resulted in increase in oil prices. The other option is soyabean oil, which has also seen a similar price rise,” says Prashant Vasisht, Vice president and Co-head, Corporate Ratings, ICRA Ltd.

“The reason is supply disruptions owing to poor weather conditions and shortage of labour due to Covid in Indonesia and Malaysia. Also, demand has been higher from the soap segment (due to hygiene consciousness) and edible oil segment (since people are eating more at home these days). Prices are expected to remain firm on concerns of supply owing to wet weather in January and February 2021,” he adds.

The government has been trying to shore up domestic production, but it will not yield results overnight. It also lowered the import duty on palm oil from 27.5 to 15 per cent in Budget 2021, which has not really worked. Another round of duty cut is under consideration.

“The increase in edible oils prices can be attributed to domestic demand coupled with higher cost of imports amid lower supplies in major exporting nations. We expect price pressure on this account to continue for the next four-five months,” says Kavita Chacko, Senior Economist at CARE Ratings.

Scramble for LPG

LPG prices in India mirror international trends. Global LPG prices move in tandem with crude oil prices, which have more than doubled from $30.61 per barrel in May 2020 to $66.95 per barrel in May 2021. But what is actually hurting consumers is the removal of subsidies on LPG.

India has around 28.95-crore LPG consumers. The numbers have grown steeply by over 95 per cent from 14.8 crore in 2014/15 largely due to the launch of the Pradhan Mantri Ujjwala Yojana (PMUY) in 2016, which sought to increase the penetration of LPG by giving free connections to Below Poverty Line (BPL) households. Under the scheme, around eight-crore connections at an expense of ₹12,800 crore have been given, taking the LPG penetration in the country to 99 per cent, against 55 per cent in 2014.

Alongside the eight-crore consumers under PMUY, another 18-crore are technically eligible for subsidy as their annual household income is less than ₹10 lakh. In March 2020, for example, they received a subsidy of around ₹252 for a cylinder that costs ₹805, nearly the same as today. While PMUY users are still eligible for three free cylinders during the pandemic — a one-time provision that was made at a cost of ₹9,710 crore — it is this segment of India's households that is bearing the brunt of subsidy elimination.

“With gas cylinders being essential items across most households, the increase in LPG prices directly feeds into the overall expenditure, impacting consumption as well as savings,” says Chacko of Care Ratings.

“When oil prices fell to record lows in April 2020 it eliminated the need for subsidy. When they went up again in the second half of 2020/21, however, subsidy was not brought back and the price hike was transferred to consumers,” says an official in the Ministry of Petroleum and Natural Gas. “The only subsidy being provided right now is for PMUY users,” he adds.

Despite the higher number of users in the fold and free cylinders being doled out, high prices have impacted consumption. LPG consumption declined by 3.8 per cent year-on-year to 25.13 million metric tonnes in FY21.

Managing Costs

Increase in commodity prices, especially oil, not only has an impact on edible oils, but also on a host of other products such as soaps, shampoos, snacks and biscuits. While soaps have seen a 15-20 per cent hike in prices, the price hike passed on to consumers is nowhere close to the over 50 per cent increase in palm oil, one of the key ingredients. “The pricing call has to be made in a way that consumption, demand and volume doesn’t get impacted. We can’t hike costs at the expense of volume,” says Sunil Kataria, CEO, India and Saarc, Godrej Consumer Products.

The dilemma for most companies is to hike prices at a time when consumption and affordability are at an all-time low. “On one side you have to increase prices and on the other side there are issues with demand. If brands are not careful it could lead to stagflation. They have to find a way to continue to promote consumption, but at the same time absorb some of these commodity price increases,” says Anand Ramanathan, Partner, Deloitte India.

Most brands are therefore trying to rationalise costs across operations. One of the first steps has been to reduce trade discounts. “Discounts and schemes offered to retailers have virtually dried up,” says Prem Kumar, Founder and CEO, retail tech company SnapBizz. While discounts in categories such as edible oil have vanished, in other categories, the trade discount reduction has been in the range of 8-20 per cent.”

Kataria of Godrej says that in India, trade discounts cannot completely dry up. “Trade margins are led by competitive intensity, so when margins are under pressure, companies reduce discounts. Due to the lockdown, shops were opening only for three-four hours, therefore, trade rationalisation happened in terms of SKU rationalisation. With shops opening up, competition intensity will be back as well.”

Godrej has embarked on a strategy of cross-category management of pricing and margins. Since a large chunk of its volume growth comes from low-unit packs (which is price sensitive), in a category like soaps, the company got rid of some grammage, but did not tamper with the price. However, it has increased prices of its premium packs, since those consumers have higher purchasing power and the category in general is price elastic.

“We have also played with pricing within brands. We have increased prices of premium brands such as Cinthol, but in case of Godrej No.1, we have shaved a bit of grammage, but not meddled with pricing at all. The idea is to focus more on hard volume growth so that we can concentrate more on absolute margins than percentage margins,” explains Kataria.

Tata Consumer, too, has consciously tried not to increase prices of its 100-gm packs, but has raised prices

PHOTOGRAPH BY RACHIT GOSWAMI

> “THE PRICING CALL HAS TO BE MADE IN A WAY THAT CONSUMPTION, DEMAND **AND VOLUME DON’T GET IMPACTED. WE CAN’T HIKE COSTS AT THE EXPENSE OF VOLUME”**
>
> **Sunil Kataria,** CEO, India and Saarc, Godrej Consumer Products

PHOTOGRAPH BY RACHIT GOSWAMI

> “AS FAR AS BRANDS ARE CONCERNED, MOST FIRMS ARE YET TO PASS ON **MASSIVE PRICE HIKES TO CONSUMERS. THEY ARE WAITING FOR THE LOCKDOWN TO BE COMPLETELY LIFTED”**
>
> **Arvind Mediratta,** CEO, Metro Cash & Carry

of 500 gm and 1 kg packs of Tata Tea. The company has tried to cut costs by removing layers within its organisation as well as in its partner network. “We used to have super-stockists, who we have removed, and that has saved us 1.5-2 per cent of our costs. We have done things which will not impact the retailer or the consumer in terms of discounts,” says D’Souza.

Last year, Tata Chemicals and Tata Global Beverages were merged to form Tata Consumer. “At the time of integration we promised the Street we will take ₹150 crore of the cost out of the system in 18-24 months and we are well on track. We took off layers in our organisation internally. We consolidated C&FAs (cost & factory accounting systems) and logistics. We cut down the number of warehouses by half. Since we have the advantage of scale between the two businesses, packaging costs have come down as well,” he adds.

Dabur India, on the other hand, increased prices by three per cent across brands. However, CEO Mohit Malhotra, like his peers in the FMCG business, believes that price increases will not be enough to mitigate the impact of inflation. The company has launched a cost optimisation project called Project Samriddhi. “Last year, we saved around ₹50 through this initiative. This year we plan to save another ₹100 crore.”

Grammage Reduction

Most FMCG brands have resorted to reducing grammage whenever they had to deal with price rise. In 2018, Parle Products reduced grammage of its iconic Parle G brand by five-six per cent to offer the product to its price-sensitive consumers at ₹5. Nestle India has also resorted to similar tactics of reducing grammage of its ₹10 pack. This time, the food major has reduced grammage of the ₹10 pack of Maggi Noodles from 70 gm to 60 gm, according to a report by SnapBizz.

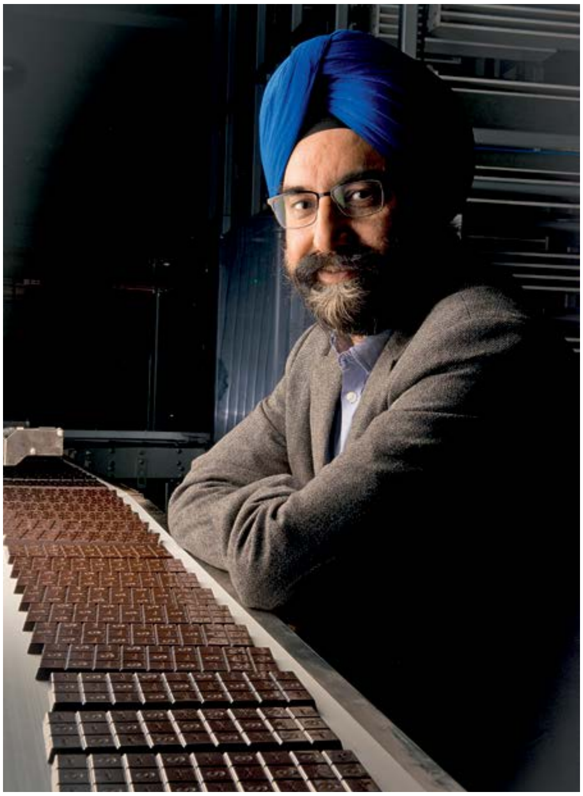
In soaps, Godrej has got rid of grammage in its mass brand, Godrej No. 1. However, FMCG experts believe that cutting down grammage can’t be adopted any longer. “Brands have overdone it and there is hardly any room left for any more reduction,” says Mediratta of Metro Cash & Carry.

He cites the example of Cadbury’s chocolates, which gets over 60 per cent of its revenue from the smaller pack sizes priced at ₹5-10. “The company can’t increase the price from ₹5 to ₹5.50 (as there would be coinage issues), and they have already optimised the grammage and trade margins. If they try to optimise grammage further, there will hardly be any chocolate left to consume.”

Grammage reduction takes time to implement, says Ramanathan of Deloitte, as companies also need to change packaging. Therefore, a lot of them have started to bundle not so well-performing products with their popular categories. “Since they were not able to predict demand very well and stocks were building up, brands took to liquidation. Some of the liquidation came through bundling. When they did it on their D2C (direct-to-consumer) platform and on ecommerce marketplaces, price economics improved. A lot of companies are resorting to bundling strategies instead of cutting down grammage.”

Effect On Ad Spends

FMCG companies are among the largest spenders on



PHOTOGRAPH BY RACHIT GOSWAMI

> THE COSTS OF FARMERS HAVE GONE UP TOO AND WE ARE NEITHER ABLE TO **REDUCE THE PROCUREMENT COST, NOR PAY FARMERS MORE... BEYOND A POINT WE MAY HAVE TO INCREASE PRICES"**
>
> **R.S. Sodhi,** MD, Amul

advertising. During last year's lockdown, when demand completely dried up due to supply constraints, most FMCG majors stopped advertising. This time, they have cut down ad spends by 10-25 per cent not because of the dip in demand, but to conserve costs. "FMCG companies are cutting down above-the-line advertising and marketing spends as well as below-the-line promotions," says Mediratta of Metro.

Godrej Consumer, says Kataria, has cut down on advertising mostly for discretionary categories such as hair colour. "In a category like home hygiene, we have done three times more advertising a year ago." While advertising for soaps has dipped at an industry level, Kataria claims he has ensured that his share of voice doesn't dip.

Tata Consumer's D'Souza, however, says his company got back to high-decibel advertising soon after Q1FY21. "Last quarter our ad spends went up substantially. Building brand strength and equity is the core proposition of how we are going to build our business and grow market share."

Normalcy A Far Cry?

With markets opening up, FMCG business heads are looking forward to a revival in volume growth. But they are not sure if they will be able to control further price increases. "We will look at another round of price hikes, going forward. We expect inflationary pressures to be prevalent in the first two quarters of this fiscal, and then to soften in the second half," says Dabur's Malhotra.

Though milk prices haven't gone up, higher logistic and packaging costs have increased dairy major Amul's costs by ₹1.50 for every litre of milk. Like most other FMCG companies, Amul, too, has tightened trade incentives and schemes, and has tried to absorb the cost increase by squeezing margins. "The costs of farmers have gone up too and we are neither able to reduce the procurement cost, nor pay farmers more. We are watching the situation, beyond a point we may have to increase prices," says R.S. Sodhi, Managing Director, Amul.

Mediratta of Metro Cash & Carry says the days of FMCG companies operating on 60-70 per cent margins are over. "It's high time they realise that the days of making super-normal profits are over. They have to consider rationalising other spends such as staff salary, marketing budgets and headquarter costs."

"With domestic demand dropping following the surge in cases in Covid 2.0, we expect pricing power to remain muted for some time. We believe the transmission of vaccine optimism-fuelled high global commodity prices will remain restricted to WPI inflation, and pass through will be limited for CPI inflation," says Aditi Nayar, Chief Economist, ICRA Ltd.

Though companies are trying their best to pass on the best-possible value to consumers, the latter would do well to prepare themselves for yet another round of price hikes. BT

@ajitashashidhar; @sumantbanerji

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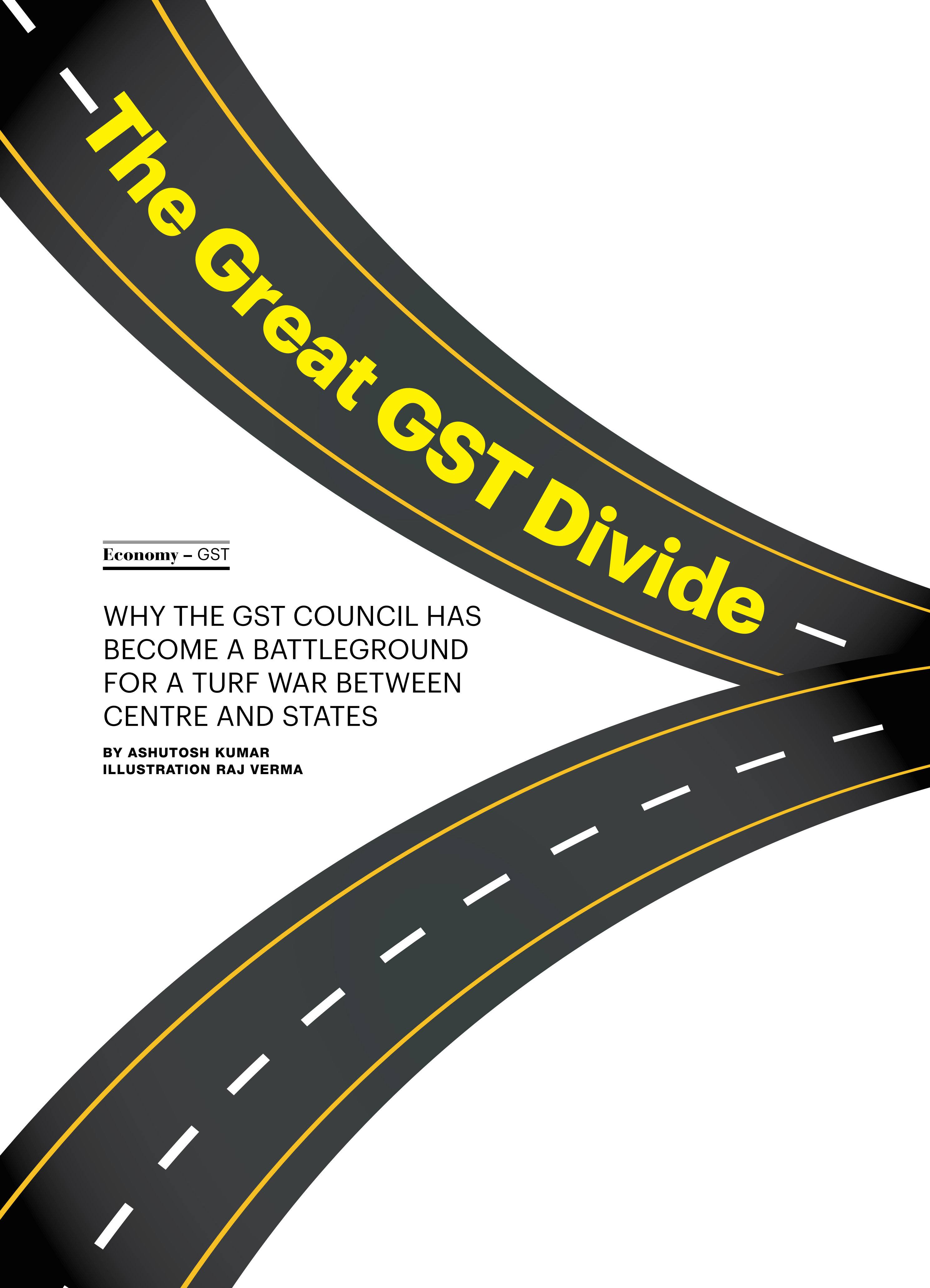
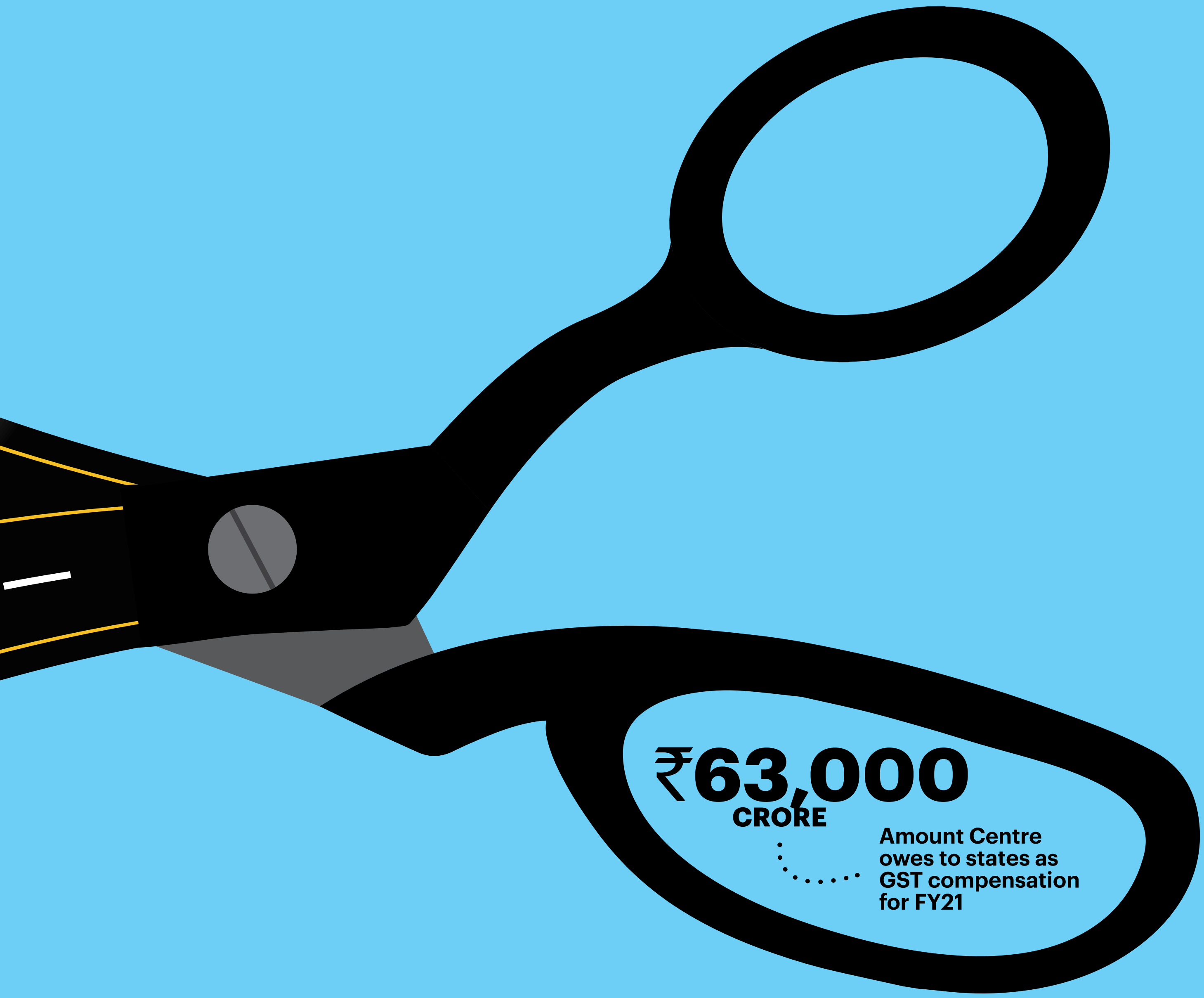


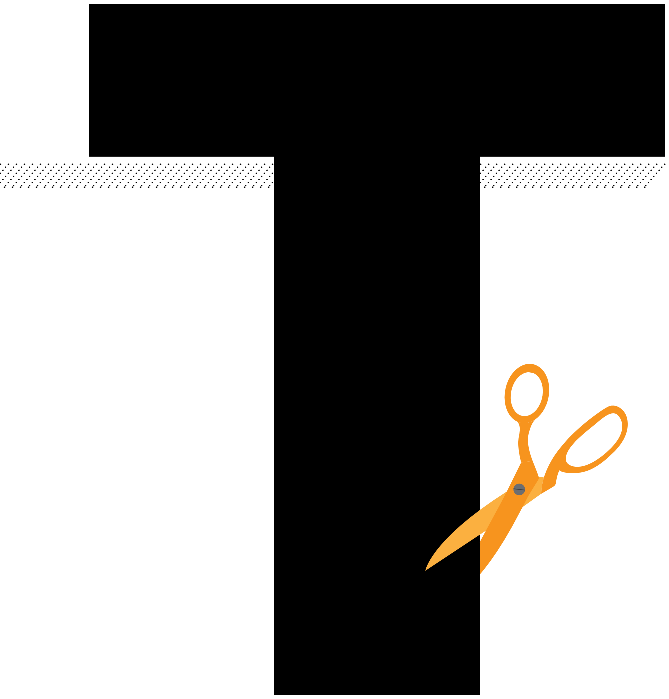
The Great GST Divide

Economy – GST

WHY THE GST COUNCIL HAS BECOME A BATTLEGROUND FOR A TURF WAR BETWEEN CENTRE AND STATES

BY ASHUTOSH KUMAR
ILLUSTRATION RAJ VERMA

₹63,000
CRORE
Amount Centre owes to states as GST compensation for FY21



Tamil Nadu Finance Minister P. Thiaga Rajan's speech at the 43rd meeting of the GST Council on May 28 could not have been music to Centre's ears. Referring to delay in payment of GST compensation to states, unilateral decisions such as imposition of cesses (whose proceeds go to only the Centre) and the overall distrust between central and state governments, the former Wall Street veteran said "rancour in the relationship" has set in. Finance ministers of Kerala, Punjab and Maharashtra pitched in and questioned Centre's plan to raise more debt in FY22 to compensate states for revenue loss due to GST implementation despite expectations of revenue buoyancy. The "rancour" even prevented an agreement on an issue as important as taxing Covid-19 vaccines. The matter had to be referred to a group of ministers (GoM).

Is the council, which has held 44 meetings since 2016 and has a record of ensuring that all its decisions except one have been unanimous, losing its federal character amid the financial stress being faced by both Centre and states due to the Covid-19 outbreak? The biggest source of discontentment among states, after all, has been pending compensation for FY21. The central government had promised to make good any loss suffered by states due to implementation of GST. Several states say they have been paid much less than what was their due.

9

PER CENT

Share of cess in central revenue, up from 6.9% in FY15

Five years after giving up their freedom to tax goods and services in favour of the GST Council, states are coming around to a view that they have been short-changed and their voices muzzled. GST Council decisions require a three-fourth majority. Centre has a one-third vote and states the remaining two-third. The former also has a veto on decisions.

States Rise Up

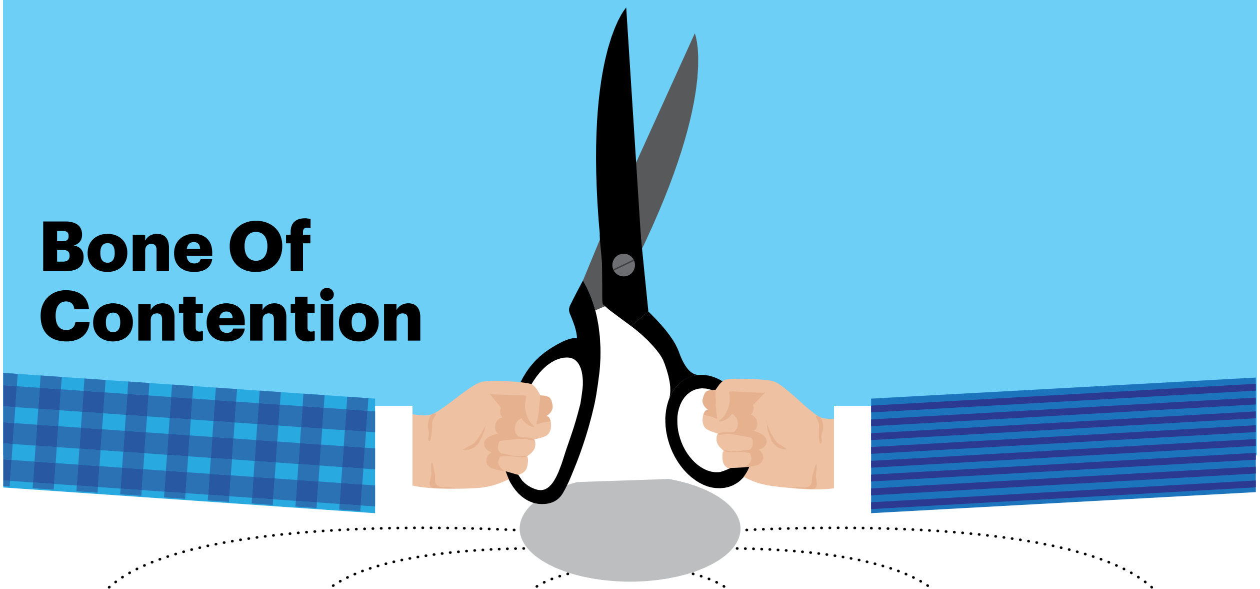
The build-up to the 43rd GST Council meeting on May 28 was ominous. It all began with a letter by West Bengal Chief Minister Mamata Banerjee to Prime Minister Narendra Modi demanding reduction of GST on Covid-19 vaccines. In response, Finance Minister Nirmala Sitharaman took to social media to explain in a series of tweets the technical problems in exempting vaccines from GST. Three days later, on May 12, West Bengal Finance Minister Amit Mitra wrote to Sitharaman raising the issue of pending GST compensation to states and urging her to call a meeting of the GST Council as it had not met since October last year.

Four days before the meeting, Punjab Finance Minister Manpreet Singh Badal wrote to Sitharaman terming the agenda of the GST Council "mundane" and not addressing any of the "substantive issues." He raised the issue of pending compensation for FY21 and reduction of GST on Covid essentials. Two days before the meeting, finance ministers of non-BJP ruled states deliberated upon issues to be raised in the GST Council. Though their biggest concern was pending compensation for FY21, the issue of reduction in GST on Covid vaccines and essentials such as PPE kits, sanitisers, ventilators and medical oxygen was also taken up. The stage was set for a showdown.

Compensation Conundrum

The biggest reason states agreed to give up their autonomy to tax goods and services was an assurance by the central government that it would compensate them for any revenue loss from subsuming of indirect taxes such as sales tax/VAT into GST. The GST (Compensation to States) Act, enacted in 2017, guarantees states 14 per cent annual growth in GST revenue over base year FY16 for five years between July 2017 and June 2022. While this worked well till FY19, problems cropped up in FY20 when Centre started finding it tough to pay states as economic slowdown affected its revenues. The Covid-19 outbreak aggravated the problem by putting huge pressure on both Centre and states. As per the Ministry of Finance data, states are yet to be paid ₹63,000 crore GST compensation for FY21 despite disbursement of ₹1,10,000 crore loans raised by Centre to meet states' GST shortfall. As per the finance ministry, ₹70,000 crore had been released as of March 31 this year, over and above the funds raised through loans. An additional ₹14,000 crore had been paid as part of the Integrated Goods and Services Tax settlement.

Bone Of Contention



Pending ₹63,000 Crore Dues for FY21

STATES: Centre should pay up immediately in view of Covid crisis

CENTRE: Dues to be paid from money raised in FY22

GST on Covid Vaccines

STATES: Exemption or 0.1 per cent tax on humanitarian grounds

CENTRE: Exemption will increase price as input tax credit will not be passed on to consumers

Tax Unilateralism

STATES: Centre raising more and more funds through cess (cess revenue is not shared with states)

CENTRE: Revenue augmentation measures needed. Tax buoyancy to ease situation

Back to Back Loan for GST Compensation

STATES: Why raise more debt for FY22 when Centre expects tax buoyancy?

CENTRE: ₹1,58,000 needs to be raised even with average monthly GST collections of ₹1,15000 crore

GST Compensation Cess

STATES: Extend for five years till 2027 to protect revenue

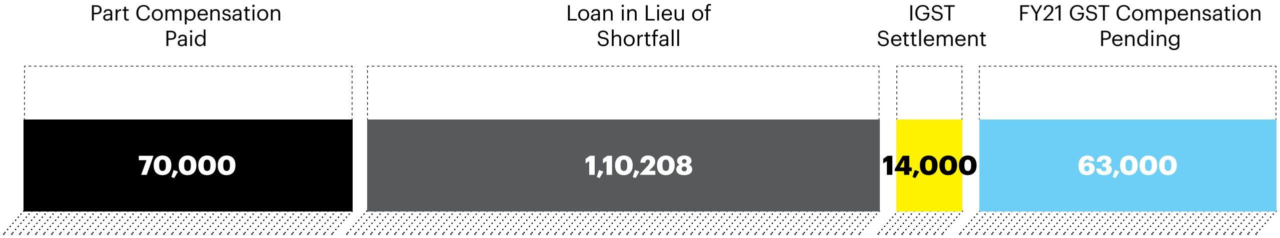
CENTRE: Will hold a dedicated GST Council meeting on the issue

Co-Operative Federalism

STATES: Council turning authoritarian, majoritarian. Consensus missing

CENTRE: Never stifled dissent, council embodies collective spirit of all states

Centre Fails to Pay Dues to States



in ₹ crore; Source: Finance Ministry

The GST compensation cess statement for FY21 reveals that against the pending amount of ₹63,000 crore, the closing balance is ₹3,940 crore. This is the lowest since the launch of GST. This came as a surprise to state finance ministers. Even before the pandemic, India's Gross Domestic Product growth had slumped to 4.2 per cent in FY20 from 6.1 per cent in FY19. The closing balance was as high as ₹55,737 crore in FY20. This diminishing pool and lack of clarity on payment of FY21 dues was one of the main triggers for what happened in the GST Council meeting. The clarity that state governments wanted remained elusive.

States' Shortfall

As against Centre's accounts stating a closing balance of ₹3,940 crore, just the state of Punjab is owned a lot more than that. Punjab Finance Minister Manpreet Singh Badal told *BT* that after all adjustments, the Centre owed his state ₹5,000 crore. "It is a huge amount for the state. The Congress party raised the issue in the GST Council," he says.

"Kerala needs to be paid more than ₹4,000 crore on this account. The amount is much bigger for several other states," says Kerala Finance Minister K.N. Balagopalan. Chhattisgarh Finance Minister T.S. Singh Deo says states are not even getting the protected revenue. "In lieu of the right to taxation that state governments have surrendered, they are bound to be paid an assured increase of 14 per cent in GST revenue over the base year. From that point of view, we lost ₹1,300 crore in the previous financial year."

Maharashtra Chief Minister Uddhav Thackeray raised the issue during a meeting with the prime minister on June 8. "Maharashtra was expected to get approximately ₹46,000 crore as GST compensation but has received only ₹22,000 crore," state Finance Minister Ajit Pawar, who accompanied Thackeray, told mediapersons after the meeting.

PHOTOGRAPH BY BANDEEP SINGH

> **"When we decided that a GoM would decide on waiver of tax for Covid treatment items, is that an amicable way of arriving at a solution or do you think this is adversarial?"**
>
> **Nirmala Sitharaman**, Finance Minister

This does not mean that all states have been denied their dues. "There is no pendency. We have received ₹7,229 crore as GST compensation and ₹6,009 crore as part of the debt raised to meet the deficit," says Uttar Pradesh Finance Minister Suresh Khanna.

While the GST Council deliberated on debt to be raised to meet the FY22 shortfall, the Centre did not seem to have a clear plan on previous financial year's dues, a key demand of states. It is pinning hope on expected buoyancy in GST revenues in the current financial year to pay its dues for FY21, a delay that the states are finding un-appetising. "On compensation for the current financial year, we have proposed to the council that if we take the same methodology and formulae that we adopted the last time, the gap is around ₹1,58,000 crore. Unlike last year, the economy has not suffered as much this year. So, last year, deficit was more than the back-to-back borrowing that took place. This year, even if we are able to collect average monthly GST revenue of ₹1,10,000, our deficit will be ₹1,50,000 crore while we will be doing a back-to-back borrowing of ₹1,58,000 crore," Revenue Secretary Tarun Bajaj said after the meeting. This means states can be compensated by ₹8,000-10,000 crore for previous year's shortfall. "If we are able to collect an average monthly GST revenue of ₹1,15,000 crore for the 12-month period, the deficit comes to ₹1,25,000 crore, and if we borrow ₹1,58,000 crore, this will compensate for another ₹33,000 crore," he added. States, however, are not convinced, as even this amount is way short of the ₹63,000 crore that they are owed. The only commitment they have got from the Union finance minister is that there will be further deliberations and a dedicated meeting on extending the compensation cess period beyond June next year.

₹158K
CRORE
Amount Centre will borrow to pay states in FY22

The Cess Question

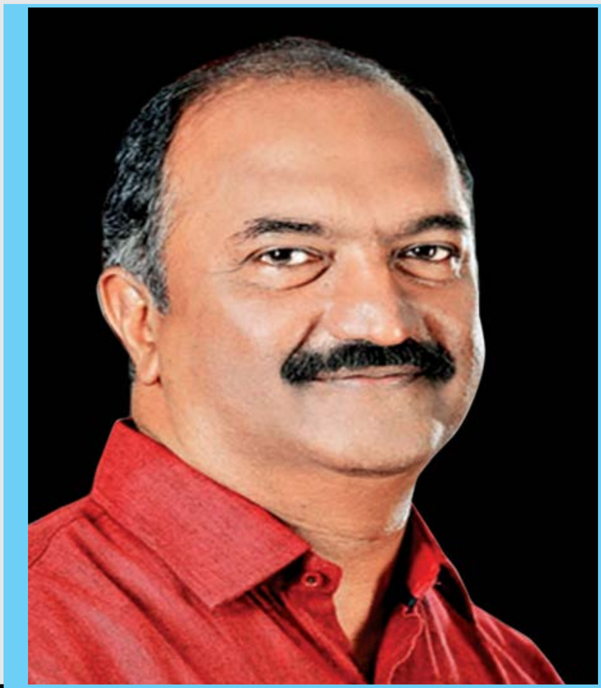
The finance minister denies that the GST

Council is losing the essence of co-operative federalism. "When finance ministers of states, some of them who are chief ministers, meet, there will be discussions, there will be rebuttals, arguments, but that's what the forum is meant for. Is that immediately tussle or dent in federalism?," she said in an exclusive interaction with *BT*. However, Chhattisgarh Finance Minister Deo says the moment the Centre fails to pay committed revenue to states, the concept of federal unanimity comes under question. "If central compensation is delayed for whatever reasons, the very basis of GST and the council is compromised. Also, it does not serve the interests of states, particularly the manufacturing states, to forgo their rights to taxation. It is the consuming states that are benefiting at the expense of the producing states," he adds.

P. Thiaga Rajan is more direct and blames Centre's "less than compassionate position" towards states. "The reluctance of the Union to settle the dues in a timely manner has introduced justifiable rancour in the relationship," he said in his speech at the council meeting.

Experts say this was expected. "Over the last two years, the level of co-operation visible after GST rollout has been missing. This was bound to happen as the law evolves," says Rajat Bose, Partner at law firm Shardul Amarchand Mangaldas. Bose says states, which had a key role in the beginning, are realising that issues specific to their needs have to be addressed. "Once regional issues come in, it is difficult to arrive at a consensus, like it happened in case of Kerala lottery or gaming industry in Maharashtra," he says.

Ranjeet Mahtani, Partner, Dhruva Advisers LLP, says Centre will have to play the role of a referee. "In the context of the federal character of the council, the decisions have to be with consensus. Till 2019, the decisions were with consensus. The central government has to take a statesman-like position and become a referee in effect so that the federal character remains intact," he says. He, however, maintains that on matters of state revenue, ideals like federal unity take a backseat. "The binding glue on which states came together for GST was compensation for revenue losses on account of subsuming of state taxes. When the five-year



"Extend Period of Compensation by Five Years"

K.N.Balagopal, Finance Minister, Kerala

In 2015, K.N. Balagopal, then a Rajya Sabha member, had submitted a dissent note, flagging concerns over fiscal federalism, against the GST Bill as a member of the Select Committee. Six years on, as Kerala Finance Minister, he feels his fears were not misplaced. In an interaction with **Joe C. Mathew,** he calls for an overhaul of the GST system

On need to review the role of GST Implementation Committee

It is not only the structure of the GST Council that needs to be reviewed. It is time to discuss the impact of the GST system on economy of the country and revenues of states. I was among the few who had issued a dissent note on risks associated with Centre having an absolute say in decision-making and states losing their financial independence. Several states are recognising this threat.

Are you suggesting an overhaul of the whole system?

Let there be discussion first. If states become mere fund distributors, we will be heading towards a major crisis. A discussion is also needed because 18 per cent of central government income is coming from cess which is not distributed (among states).

On extension of compensation period

Centre should take the pandemic-led disruption into consideration and extend the period of compensation by five years.

Will this get support from all states across party line?

It should. There has to be some consensus over Centre-State relationship. States will have to be given some financial autonomy.

“No GST Compensation Due, Will go by Council Decisions’”

Suresh Khanna, Finance Minister, Uttar Pradesh

Bharatiya Janata Party (BJP)-ruled Uttar Pradesh goes to polls in March next year. State Finance Minister Suresh Khanna says during a select media interaction virtually they are not facing any shortage of funds in the year disrupted by the second wave of the contagion.

On pending GST compensation for FY21
Uttar Pradesh does not have any pendency whatsoever. We have received ₹7,229 crore as GST compensation and ₹6,009 crore as part of the debt raised to meet the deficit. With that, no amount is pending on account of GST to Uttar Pradesh from the Centre.

On extension of compensation period, other GST issues
We will go by the decision taken by the council on all issues related to GST.

On revenue augmentation amid Covid
The state hasn’t increased VAT to raise revenue to help fight the pandemic. VAT on petrol is ₹26.80 and on diesel is ₹17.48, lower than Andhra Pradesh, Maharashtra, Odisha, Tamil Nadu and Chhattisgarh. We believe in improving our infrastructure rather than raising taxes.

PHOTOGRAPH BY MANEESH AGNIHOTRI

period is over, resources for running government machinery will become a major issue.”

Tiff Over Cess

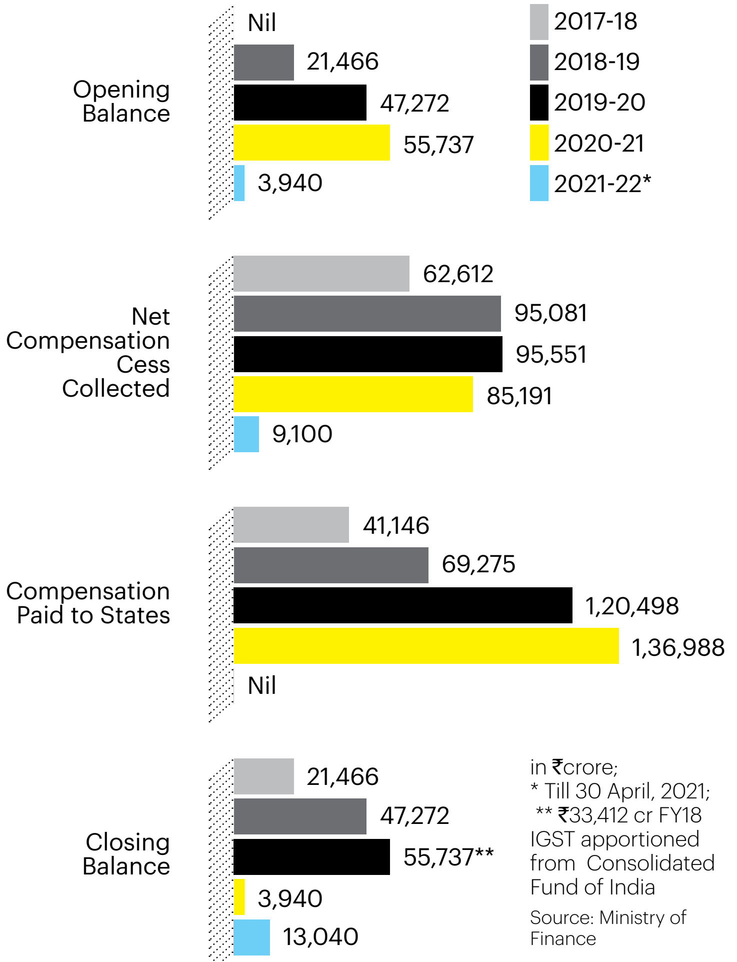
States are also becoming vocal on tax unilateralism – raising revenue via cess – by the central government, leading to shrinking of the divisible pool. Cess revenue is not shared with states. Kerala and Tamil Nadu finance ministers raised the issue in the GST Council. “Close to 18 per cent of central government revenue is being raised from cess and not distributed (among states). Total control of finances is with the central government. It needs to be discussed and reviewed,” said Balagopalan. “As Centre gets more financial control, state finances suffer. For India to prosper, a harmonious Centre-state relationship is a must.” Rajan said increase in states’ devolution from the divisible pool of taxes to 42 per cent has largely been offset by increase in collection from cesses to ₹2.55 lakh crore in FY20, 80 per cent more than ₹1.4 lakh crore in FY14. According to Budget documents, share of cesses in gross tax revenue has grown from 6.9 per cent in FY15 to almost 9 per cent in FY20 after peaking at 10 per cent in FY17. This does not include GST compensation cess. Rajan said the gradual shift of petrol and diesel taxation from excise to cesses has led to revenue loss for states. “A shift of over ₹50,000 crore relative to FY14 ratios of excise and cess, away from the pool of divisible taxes, has led to reduction of ₹20,000 crore (41 per cent of ₹50,000 crore) in states’ payment as share from the divisible pool,” he said.

Political Divide

Another disturbing trend is vertical split on party lines on key issues. Take the proposal for curtailing GST on Covid vaccines and equipment. “Both Gujarat and Odisha were in favour of zero tax on the vaccine along with states like West Bengal, Kerala, Maharashtra, Chhattisgarh, Tamil Nadu and Rajasthan. But if the matter was put to vote, Gujarat would have sided with Centre due to political alignment. The proposal would not have passed muster,” said a source present in the meeting.

The finance minister has already told the West Bengal Chief Minister that reduction in GST on vaccines will increase prices as manufacturers will not be able to offset taxes with taxes paid on inputs. She also says there is no political divide in the GST Council. “When we decided that a GoM would decide on waiver of tax for Covid treatment items, is that an amicable way of arriving at a solution or do you think this is adversarial? So, avoid this assumption that it (GST Council) is a place for quarrel, fight and

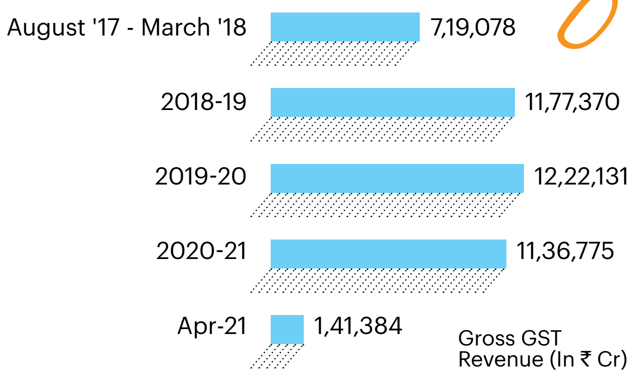
Record Low Cess Closing Balance for FY21 Shows Stress on Finances...



in ₹crore;
* Till 30 April, 2021;
** ₹33,412 cr FY18 IGST apportioned from Consolidated Fund of India

Source: Ministry of Finance

...As GST Revenue Falls



bickering. I must say to the credit of every member of the GST Council that they are being absolutely statesman-like like in their behaviour," she said.

The GoM finally recommended status quo. The council met again on June 12 to discuss the recommendations of the GoM and decided to keep GST on Covid vaccines unchanged. A few days prior to this, the prime minister had announced a new policy according to which Centre would procure 75 per cent of the vaccines and supply to states free of cost. After the meeting, Sitharaman said in the press conference that since the Centre would procure the vaccines, there won't be any tax burden on any state.

Still, consensus proved to be short-lived. In an ugly turn of events, West Bengal Finance Minister Amit Mitra, in a tweet, blamed the Centre for muzzling his voice. Mitra, who wanted to register his dissent on the vaccine issue, said, "Since my voice ignored, I have recorded my dissent by letter. Unprecedented. Slow death of the only body of cooperative federalism." In a letter to the finance minister, he pointed out that he repeatedly tried to voice his objections but his voice was muzzled and the secretary cut off the virtual link."

After this, Minister of State (Finance) Anurag Thakur took to Twitter claiming that Mitra remained silent when the Union finance minister asked for comments from the members. "The finance minister has never stifled dissent in the GST Council. It is unbecoming of a senior member of the council to suggest that this has happened. The GST Council embodies the collective spirit of all states towards debate in a healthy manner," he said.

While GST on vaccine remained unchanged, the council waived tax on black fungus medicine, and reduced tax on Remdesivir, along with a slew of other Covid equipment. These were demands of some states, though it will take more than this to bring peace at the GST Council. **BT**

@ashutoshkumar

Industry

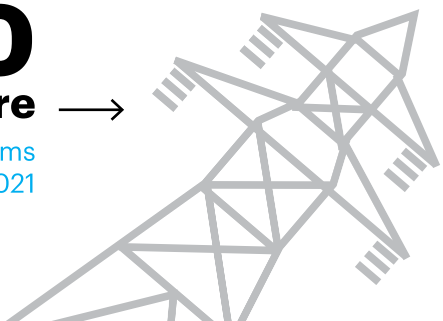
DISCOM DISTRESS

The pandemic has pushed discoms deeper into the red, while the government's big reform scheme UDAY has flopped. A new scheme has been announced, but will it work?

BY SUMANT BANERJI

₹3,00,000 Crore →

Reforms-based package for discoms announced in Budget 2021



The NTPC power plant in
Dadri, Uttar Pradesh

PHOTOGRAPH BY SHEKHAR GOSH

One of the big

announcements in this year's Union Budget was a mega reforms-based package for power distribution companies (discoms) with a corpus of over ₹3 lakh crore. Discoms are intermediaries between power plants and the household socket tasked with the job of transmitting and distributing raw electricity. They are, however, the weakest link in the power value chain due to numerous inefficiencies.

"The viability of distribution companies is a serious concern. A revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of ₹3,05,984 crore over five years," Finance Minister Nirmala Sitharaman said in her Budget speech on February 1. "Distribution companies across the country are monopolies, either government or private. There is a need to provide choice to consumers by promoting competition... A framework will be put in place to give consumers alternatives to choose from among more than one distribution company."

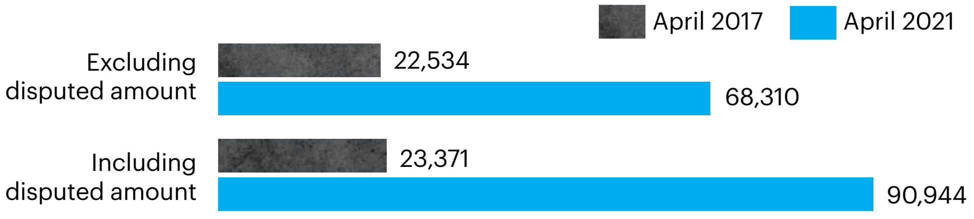
Discom Scorecard

		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total loss	(₹ cr)	**48,619**	**38,745**	**33,594**	**61,360**	**N.A.**	**N.A.**	**N.A.**
Gap (ACS-ARR)*	(₹/kWh)	0.48	0.55	0.47	0.55	0.52	0.83	0.66
AT&C losses	(%)	23.96	23.5	22.33	22.01	23.17	24.31	N.A.
External debt	(₹ lakh cr)	2.80	2.20	2.75	3.00	3.47	4.51	4.87

*ACS: Average cost of service and ARR: Aggregate revenue realised; N.A.: Not available;
Source : PFC Report on SEBs, MOP FRP Scheme, UDAY portal, PRAAPTI, CRISIL Research

Tracking Overdues

(₹ crore)



“Delhi is a prime example of how privatisation works in the sector... The biggest advantage of privatisation is it brings in greater accountability, which in turn improves efficiency”

Sanjay Banga, President, Transmission and Distribution, Tata Power

The scheme — Reforms-Linked, Result-Based Scheme for Distribution (RLRBSD) — will provide assistance to discoms for infrastructure creation, including pre-paid smart metering, feeder separation (supply of electricity to agricultural and non-agricultural consumers) separately and upgradation of systems tied to financial improvements. It targets reducing electricity supply (AT&C) losses to 12-15 per cent, and the gap between cost and revenue to zero by FY25. Unlike in the past, discoms will get their share of grant from the government at the end of the year, only if they achieve their pre-set targets for the year. It is expected to usher in long-pending reforms in a sector reeling under heavy debt and payment overdues.

Coronavirus-induced lockdowns over the past one year have made matters worse. India’s power consumption fell for the first time in 35 years to 1271.54 billion units in FY21, since industries could only operate intermittently in many parts of the country after the lockdown was lifted.

Already reeling under heavy debt, it came as a bolt from the blue for discoms. The fall in demand was particularly severe in the higher-tariff industrial and commercial segments, which are used to cross-subsidise lower-tariff residential users. According to ICRA Analytics estimates, monthly revenue loss of discoms due to reduced industrial and commercial demand was over ₹16,000 crore.

It resulted in a surge in overdues. From under ₹24,000 crore in April 2017, dues to power producers trebled to over ₹90,000 crore in April 2021. Aggregate debt, which had fallen to around ₹2 lakh crore in FY17 is estimated to have more than doubled to an all-time high of ₹4.51 lakh crore in FY21. It is projected to increase further to around ₹4.87 lakh crore in FY22, according to CRISIL. In absolute terms, it is one of the biggest drags on government resources, far in excess of its annual fertiliser subsidy of ₹80,000 crore.

“Covid has not helped the situation at all,” says Rajesh Ivaturi, Partner, Power and Utilities, EY India. “Low-paying customer segment (residential) has remained the same or has grown marginally, but the high-paying industrial consumer segment has declined. Discom financials have gone for a toss.”

Even by their low standards, these are ominous times for discoms. This is not the first time that the government has tried to rid the system of inefficiencies. From time to time, bailouts have been given. Realising the potential impact of the lockdown on discoms, Sitharaman had announced a ₹90,000-crore relief package in May last year itself. It was subsequently increased to ₹1.2 lakh crore and finally to ₹1.35 lakh crore. Yet, these are only temporary measures aimed at lessening some of the immediate impact of the pandemic. Structural problems in discoms pre-date Covid and need a comprehensive and radical overhaul.

The Failure Of UDAY

The government has tried to fix the problem a number of

PHOTOGRAPH BY BANDEEP SINGH

times. Back in 2001/02, a grid collapse prompted Montek Singh Ahluwalia to work out a bailout package for discoms through long-term bonds issued by state governments. More than a decade later, a similar Northern Grid failure in the summer of 2012 gave way to another relief package — the Financial Restructuring Plan (FRP). The latest was in 2015 when the ambitious Ujjwal Discom Assurance Yojana (UDAY) scheme was announced.

"The frequency of bailouts has obviously increased. The first one was in 2002, the next one a decade later. Then came UDAY in end 2015 and in 2020 again the government had to come up with a relief package," says Sudhir Kumar, Associate Director, Care Ratings.

Discoms' troubles stem from two factors — their inability to bring down transmission and distribution (T&D) losses and raise tariffs in line with rising costs. Both can impact households in the country and since power is under state control, raising tariff is a political hot potato as well.

Under the UDAY scheme, state governments took over 75 per cent of the accumulated debt of discoms valued at around ₹4 lakh crore to reduce their interest burden. Power utilities were encouraged to initiate reforms like reducing AT&C (aggregate technical and commercial) losses by 900 basis points to about 15 per cent in 2018/19, and also implement regular tariff hikes of 5-6 per cent per annum.

The reduced interest burden did improve the financial health of discoms in the first few years, but progress on structural reforms was tardy. From high AT&C losses of 25.72 per cent in FY15, it came down to only 22.01 per cent in FY19, the cut-off year for UDAY, missing the target by a wide 7 percentage points.

"India has one of the highest rates of industrial power in the world. It undermines our aspiration to become a manufacturing superpower"

R.C. Bhargava, Chairman, Maruti Suzuki India Ltd

The gap between average cost of supply (ACS) and average revenue realised (ARR), a key parameter that reflects the health of discoms, also went down initially from 0.84 in FY13 to 0.17 per unit in FY17, but went up thereafter to 0.44 per unit in FY19. Under UDAY, the target was to negate it.

"The main reason is that the tariff they charge from customers is lower than the average cost of power purchase. While some gaps are met through subsidies by state governments and cross-subsidies, there is still some amount that is not compensated by any and sits on discom books as regulatory assets. Further, subsidies are not paid on time by state governments and that adds pressure on discoms to do additional borrowing to meet working capital requirements," says Vibhuti Garg, Energy Economist, Institute for Energy Economics and Financial Analyses. "While discoms need to raise tariffs on an annual basis, many discoms have not raised tariffs for many years, though their costs have gone up, thereby widening the gap between their average cost of supply (ACOS) and ARR," she adds.

Privatisation Drive

One of the most talked about solutions is to privatise more and more discoms in the country. It is an experiment that has yielded positive results in many cities, including Delhi, Mumbai, Kolkata and Ahmedabad. Before it was privatised in 2002, AT&C losses in the national capital were at a high 53 per cent and the government was subsidising discoms to the extent of ₹12,000 crore every year. After privatisation losses came down, and today Delhi has one of the lowest AT&C losses among discoms in the country at just 8 per cent.

"Delhi is a prime example of how privatisation works in the sector. We have invested in technology and improved service quality. Not just us, private discoms in general have displayed high efficiency standards. Our track record makes for a good case for privatising more discoms in the country. The biggest advantage of privatisation is it brings in greater accountability, which in turn improves efficiency," says Sanjay Banga, President, Transmission and Distribution, Tata Power.

"UDAY did not succeed and anything we do in future should take into account the lessons from it," says Former Chief Economic Adviser Arvind Subramanian. "Privatisation of discoms is definitely one of the ways to solve it, but expectations need to be realistic. The fact of the matter is that the underlying politics of power has not changed significantly."

Everything comes down to making it conducive for discoms to do business through policy certainty and autonomy in pricing decisions. The power connection portability concept that the new RLRBSD scheme seeks to facilitate and for which the prevalent Electricity Act 2003 needs to be amended, would also work only when more players, including from the private sector, join the ring to give more options to consumers. Without these enabling provisions, even privatisation may not work.

"Any model succeeds only when the overall ecosystem is aligned, including regulatory certainty and availability of financial support," says Amal Sinha, CEO, Rajdhani Power. "There should be no discrimination between private and public sector discoms. Give the latter the same level of freedom and they will do well too."

One of the potential solutions that has gained currency in recent times is direct transfer of subsidy into bank accounts of consumers. Increased penetration of formal banking through Jan Dhan accounts in the society makes it, at least theoretically, a plausible alternative. This can open the doors for discoms to raise tariffs.

"Entitlements are difficult to do away with — power subsidy for agri sector has to be given. Around 100 units for households are required. We should look at eliminating subsidies and replacing them with cash transfer," says former bureaucrat Ajay Shankar who played a key role in the enactment of the Electricity Act 2003. "We should not shy away from privatisation, especially in states where governance is weak. Also, multiplicity of tariff has to be done away with."

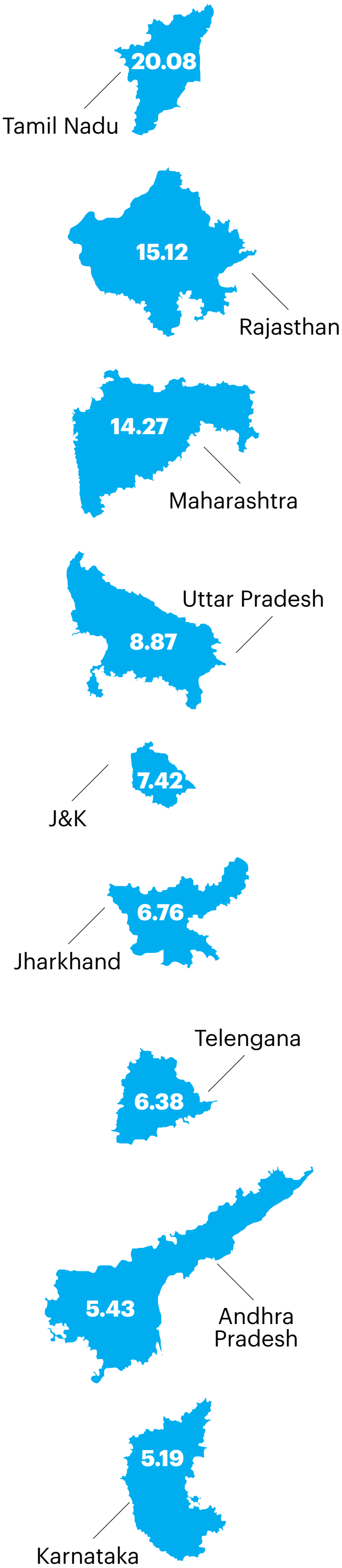
Cross-subsidy acts as a double whammy for discoms. Supplying power to industrial consumers is cheaper than to agricultural or residential users, yet the tariff is the highest for them. For the latter, cost for discoms is high but tariff is low, leaving them with no other choice but to squeeze industrial consumers.

"It makes manufacturing in the country uncompetitive," says R.C. Bhargava, Chairman of Maruti Suzuki India Ltd. "India has one of the highest rates of industrial power in the world. It undermines our aspiration to become a manufacturing superpower."

But unlike LPG, implementing direct cash transfer for power may not be easy. "It will be difficult as it is a different ballgame in the power sector compared to LPG," says Shubhadeep Sen, Chief Financial Officer, Gujarat Urja

Which State Owes How Much

Overdues (%)



Vikas Nigam. “It is a good proposal, but I don’t think the government will do it. It is not very practical as of now.”

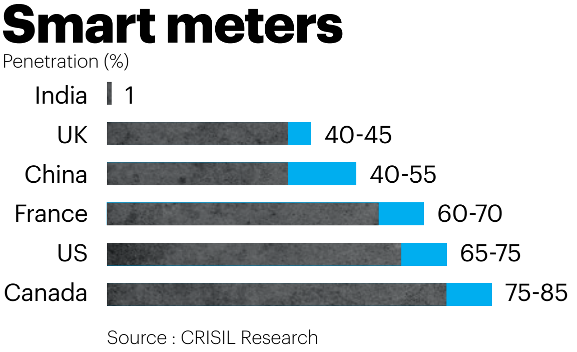
Smart Metering

The use of technology can help solve some of the sticky issues. Electricity billing is one of the few services where collection happens after consumption, compared to advance payments like in the case of petrol or LPG. Prepaid meters are one of the ways in which this can be reversed. It will reform billing and collection procedures as well. Smart meters are an intrinsic part of the government’s RLRBSD scheme, where there is a grant of 15 per cent of the cost (capped at ₹900) for every smart prepaid meter.

Already, thousands of such meters have been installed across the country and the results are encouraging. In a state like Bihar, for example, which has a high 42.34 per cent AT&C loss ratio, state-run Energy Efficiency Services has installed 25,000 smart prepaid meters. This has resulted in daily recharge revenue of ₹5 lakh for the discom. More than 60 per cent consumers are recharging their credit balance through mobile application, with ₹20 per day on an average.

Bihar is not a one-off case. All other states where smart meters have been installed have shown handsome results, with an average 25 per cent increase in billing and 95 per cent rise in billing efficiency. Even in the New Delhi Municipal Council (NDMC) area, which already has a high billing efficiency of over 99 per cent, revenue has gone up by ₹500 per month per meter. EESL says it could amount to an additional revenue of ₹1 lakh crore annually. According to CRISIL, an investment of ₹65,000 crore is needed for the full transition from traditional to smart meters in the country.

“The situation has served to reinforce the efficacy of smart meters by eliminating manual interventions,” says Saurabh Kumar, Executive Vice chairperson, EESL Group. “The benefits of smart metering, beginning with a seamless online billing process, real-time tracking of electricity usage, and reduction of billing errors have cascaded down the energy value chain to consumers. It has translated into energy and capital savings for consumers while leading to enhancement of operational efficiency for utilities.”


Smart meters

Source : CRISIL Research

Sun To The Rescue

While smart prepaid meters can help solve one part of the problem, of errant billing and collection, the other aspect of high cost can be partially solved by renewable power, especially solar. In the latest solar auction in December last year, India’s solar power cost, already the lowest in the world, hit a new low of ₹1.99 per unit. Just a month before, prices had come down to ₹2 per unit. With this, solar power cost in India has more than halved in the last six years from ₹4.53 per unit in 2015. This has put other sources of power like thermal, in the shade — solar power costs are 30 per cent lower.

A low-cost robust solar panel manufacturing industry in India will lead to lower cost of power for discoms. Most of India’s fresh investments in the power sector are skewed towards renewable energy. The Central Electricity Authority’s (CEA’s) optimum generation mix report projects India’s solar and wind to form 420 gigawatt (GW) of capacity, or 51 per cent of the total installed capacity, by 2030. The International Energy Agency (IEA) has predicted that by 2040 India is likely to add 900 GW of renewable capacity.

As the share of solar power increases, the cost for discoms will come down. So will the ACS-ARR gap. Investments in solar power have also proven to be more resilient. According to a study by CRISIL, power generation across 75 solar projects (with track record of more than three years) was better than estimates in 80 per cent of the cases.

It is one of the reasons that after the initial slowdown in capacity addition in solar during the lockdown in FY21, investments rebounded from October 2020 and are expected to gain further momentum going forward. According to ICRA, the sector added 5.9 GW of capac-

₹4.53 per unit

Cost of solar power in India in 2015

₹1.99 per unit

Cost of solar power in India in 2021, the lowest in the world

PHOTOGRAPH BY SHEKHAR GOSH

“Smart metering has translated into energy and capital savings for consumers, while enhancing operational efficiency of utilities”

Saurabh Kumar, Executive Vice chairperson, EESL Group

ity in the first 11 months of FY21, which is expected to increase to 7.5-8.0 GW by March 2021. The segment remains the key driver of capacity addition in the RE sector and has surpassed wind power capacity for the first time in January 2021, it said.

For solar to work, it is important to build battery storage. Solar generation peaks during afternoon hours when demand is low on the grid. Batteries help store excess power and supply it during peak demand hours at night. Much like how solar floodlights work in cricket stadiums.

The cost of lithium-ion derived battery storage technology is also reducing like the cost of solar power. The cost of standalone lithium-ion battery systems globally has fallen from $1,100/kWh in 2010 to $137/kWh in 2020. It is projected to decline further to $58/kWh by 2030. In April 2020, the Lawrence Berkeley National Laboratory (LBNL) in the US estimated the total capital cost for a 1MW/4MWh standalone battery system in India at $203/kWh in 2020, projected to hit $134/kWh in 2025 and $103/kWh in 2030. When co-located with solar PV systems, the storage capital cost would be lower — $187/kWh in 2020, $122/kWh in 2025 and $92/kWh in 2030.

Fortunately, India’s battery storage capacity is growing. IEA’s India Energy Outlook 2021 has predicted that by 2040 India may have 140-200 GW of battery storage capacity, the largest for any country.

But, there are a few headwinds as well. The fall in prices in every subsequent auction has a side-effect of many discoms deferring signing of Power Sale Agreements (PSA) with solar producers, hoping for a lower price. According to established practice, Solar Energy Corporation of India (SECI) acts as an intermediary, signing PSAs with developers before drawing up PSAs with discoms. However, SECI is finding it hard to get discoms to sign along the dotted line. Projects worth nearly 20 GW are in a state of limbo with solar-plus manufacturing tenders accounting for 63 per cent and plain vanilla solar tenders another 17 per cent.

“There are solutions available for each problem, but the major ingredient in all of them is strong political will,” says Kumar of Care Ratings. “Some of the steps like raising tariffs and doing away with cross-subsidies would be painful in the short term, but need to be taken. The pandemic has offered the chance for some of the long-pending reform measures to be implemented boldly. That is the only way.”

A combination of low-cost renewable energy, use of technology in smart prepaid meters with a liberal dose of privatisation can potentially break the high debt trap for discoms. It is up to policymakers to exploit the opportunity with conviction to see it through its logical conclusion.

But one thing is certain. India cannot afford to let its discoms bleed forever. **BT**

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Money Today

Good Time to Buy Your Dream Home

THE POST-COVID SCENARIO HAS ALTERED HOMEBUYERS' PREFERENCES, WITH THE WORK FROM HOME MODEL PROMPTING MORE AND MORE PEOPLE TO INVEST IN BIGGER HOUSES IN SMALLER CITIES

BY AVNEET KAUR
ILLUSTRATION BY RAJ VERMA

The pandemic has changed people's perception of home ownership significantly. Those who already own a house are looking to buy a bigger one, with work from home (WFH) set to become the new norm. But, with the second wave of Covid-19 hitting the country hard, is it the right time to invest in a new house? Also, should you go for a property under-construction or look for a ready to move in one? Or, should you invest in real estate only for returns? A lowdown.

Back In Demand

With phased opening up, pent-up demand, the festive season of the previous quarter and the on-going vaccination drive, economic recovery is gaining momentum. It has pushed the real estate adoption significantly higher as well.

According to experts, demand went back to almost pre-Covid levels during January-March 2021. In fact, February and March were the best ever in terms of traffic in the history of online real estate portals such as Housing.com and PropTiger.com. But, with the onset of the second wave of the pandemic in April, property searches witnessed a slowdown. Experts, however, see it as a brief setback.

"We have seen an incredible growth in traffic, from 10.5-11 million per month to more than 25 million visits during March 2020-March 2021," says Dhruv Agarwala CEO, Elara Group, which owns Housing.com, PropTiger.com and Makaan.com.

"As far as housing sales are concerned, we are seeing a temporary slowdown due to the rampant spread of Covid-19," says Anuj Puri, Chairman, ANAROCK Property Consultants. "The market will quickly regain an even keel once the vaccination drive picks up pace and the health infrastructure crunch abates."

Changing Trends

In the last few months, online house search portals have seen a lot of growth in traffic for buying properties. People now want bigger homes. "Previously, the best-selling used to be 1BHK or 2BHK. Now, 2BHK+study or 3BHK are more in demand," says Agarwala of Elara Group.

Though bigger homes are in demand, there is hardly any speculative buying. "People are not very confident about the future. Speculative transactions, where they used to buy four flats anticipating a 40-50 per cent price hike to enjoy huge returns in a few years, have stopped," says Raj Khosla, Founder and Managing Director, MyMoneyMantra.com. "The days when properties doubled in value in a few years are gone," he adds.

Another big shift is the emergence of Tier-II and Tier-III cities as demand drivers. Many employees have moved back to their hometowns in these cities amid Covid, resulting in a surge in demand for property. "Earlier the demand mix was 80:20, where 80 per cent came from Tier-I cities. Now the ratio is changing," says Agarwala. "We are going to go in a big way to Tier-II cities as well. It is an irreversible trend."

Affordability At Its Best

According to a report by IMGC, the Home Affordability Index is at its best ever in eight major metros. It is likely to improve later in the year. IMGC is a joint venture between International Finance Corporation, Asian Development Bank, Genworth USA and National Housing Bank.

Real estate experts believe now is the time to shop for your desired property. "A host of factors such as historic low home loan rates, stamp duty cuts in few states such as Maharashtra and Karnataka, developers' schemes to attract customers are a few favourable reasons," says Agarwala of Elara Group.

Home Loan Interest Rates

Lender	Interest Rate (%)
Kotak Mahindra Bank	6.65-7.30
Punjab & Sind Bank	6.65-7.60
State Bank of India	6.70-7.75
Bajaj Finserv	6.75 onwards
ICICI Bank	6.75-7.55
HDFC Bank	6.75-7.80
Bank of Baroda	6.75-8.60
Union Bank of India	6.80-7.65
Punjab National Bank	6.80-8.00
Central Bank of India	6.85-7.30
Indian Bank	6.85-7.40
Bank of India	6.85-8.35
Tata Capital	6.90 onwards
UCO Bank	6.90-7.25
LIC Housing	6.90-8.05
Bank of Maharashtra	6.90-8.40
Canara Bank	6.90-8.90
Axis Bank	6.90-11.50
IDBI Bank**	6.95-10.05

**10 bps concession for women borrowers under limited period offer, conditions apply.; Rates as on June 7, 2021; Source: Paisabazaar.com

Prices are within reach as well. According to the IMGC report, property prices across most markets have corrected 5-20 per cent in the last few months, especially in Tier-1 cities.

Real estate consultants Knight Frank's 'Prime Global Cities Index Q1 2021' shows Bengaluru has moved down four places in the latest index at 40th rank in the first quarter of 2021. "Against 36th rank in Q4 2020, Bengaluru saw a 2.7 per cent year-on-year decline in prime residential prices," according to the report. New Delhi and Mumbai have also moved down one spot each to 32nd and 36th, respectively, during January-March 2021, against 31st and 35th rank in October-December 2020.

The Prime Global Cities Index is a valuation-based index that tracks the movement in prime residential prices in local currency across 45-plus cities worldwide.

Low Interest Rates

Banks have lowered home loan rates since the last quarter of 2020, passing on the benefits to customers, and boosting the demand for housing loans. Home loan rates are at currently at a 15-year low. Kotak Mahindra Bank, State Bank of India, HDFC, ICICI Bank, Axis Bank and LIC Housing Finance, among others, slashed their home loan rates in 2020, and reduced them further in 2021. They are currently in the range of 6.65 -6.90 per cent per annum. Some banks were offering these record low rates as a limited-time offer.

Public sector banks, including State Bank of India, Bank of Baroda and Canara Bank, are offering even lower rates, in the range of 6.70 -6.90 per cent.

However, any further cuts are unlikely unless there is a reduction in the repo rate or other external benchmark rates, which is highly uncertain. All retail loans are linked to the external benchmark — repo-linked rate. When a bank reduces its external benchmark rate, customers availing home, mortgage, car, education, personal or other retail loan products can avail the benefit.

Home Loan Balance Transfer

Loan Amount (₹)	Existing EMI at 8% p.a. (₹)	EMI With Low Home Rate at 6.65% p. a.(₹)	EMI Savings Per Month (₹)	Tenure	Total Savings (₹ lakh)
30 lakh	**25,093**	22,633	2,460	20 years	5.90
50 lakh	**41,822**	37,722	4,100	20 years	9.84
1 crore	**83,644**	75,443	8,201	20 years	19.68
2 crore	**1,67,288**	1,50,886	16,402	20 years	39.36

Source: Kotak Mahindra Bank EMI Calculator

Fixed Or Floating?

But, should you go for a fixed or floating rate? If you are considering 15-20 year home loans, a fixed home loan might work better, says Khosla of MyMoneyMantra.com. "Now is really the best of times. A fixed-rate home loan will be a little pricey than a floating one, but since the rates are currently so low, it will benefit over a long period of time."

> **ONE BIG SHIFT IS THE EMERGENCE OF TIER-II AND TIER-III CITIES AS DEMAND DRIVERS**

How much do home loan interest rates matter? For people who are paying EMIs, even a small amount of ₹1,000 a month makes a difference, says Agarwala of Elara Group. If they can save it for two-three years, there's no harm, he adds.

Even if you wish to opt for a floating rate home loan, some extra saving on your EMI for a few years (assuming interest rates will remain at similar low levels for sometime) will be beneficial as well.

But Caution Is Key

While existing record-low rates might lure people to make their property purchases, experts warn them of reversal in interest rates. So, borrowers need to budget accordingly. Home loans typically have longer tenure, and borrowers witness several reversals of interest rate regimes during the entire loan tenure. "As home loans are mostly lent based on floating interest rate, a rising interest rate will inevitably impact all floating rate home loans, at best with a short-time lag," says Ratan Chaudhary, Head of Home Loans, Paisabazaar.com.

So, does it make sense for borrowers who are currently paying higher interest rates to switch their existing loans to banks offering lower rates?

Existing home loan borrowers should not try to time their loan transfer with the changes in the interest rate regime, says Chaudhary. "But if a home loan borrower becomes eligible for a new loan at a lower interest rate due to improvements in his/her credit score, income profile, employment profile or other aspects, he/she should consider transferring the home loan to other lenders at lower interest rate."

A steep drop in interest rates offers a good opportunity for borrowers to earn substantial savings on their interest outgo by opting for a lower-priced loan via balance transfer, says Ambuj Chand-

Why Now?

The work from home model has increased the need for bigger homes

Property prices have corrected 5-20 per cent across most markets

Home Affordability Index is at its best ever in eight major metros

Mortgage rates are currently at a 15-year low

Sale of housing units grew 68 per cent quarter-on-quarter to 58,914 units in Q4 2020

Affordable segment driving demand — 46 per cent of units launched in 2020 priced below ₹45 lakh

Stamp duty reduced in Maharashtra and Karnataka, leading to lower transaction cost; circle rates on the decline as well

na, President, Consumer Assets, Kotak Mahindra Bank. "It is especially useful for those who still have a longer tenure before repayment. Lower interest rates would help existing customers in trimming their EMI outgo."

A back-of-the-envelope calculation shows that a customer whose loan amount is ₹30 lakh (at 8 per cent interest per annum for 20 years) can save ₹2,460 per month on his EMI payment by switching to the current lowest interest rate at 6.65 per cent per annum. On a ₹30-lakh loan, the existing EMI would be reduced from ₹25,093 to ₹22,633, resulting in a savings of around ₹5.90 lakh in 20 years. (See chart: Home Loan Balance Transfer)

However, balance transfer is not free. One needs to factor in various costs while transferring the loan, including prepayment penalties, if any, on the existing loan, processing fee charged by the new lender, etc. "Opt for the loan transfer only if the savings made in interest cost through loan transfer exceed the cost by a wide margin," advises Chaudhary of Paisabazaar.com. Processing fees for transfer of home loans vary from ₹10,000-15,000.

What To Buy?

The pandemic is not over yet, and the resurgence of cases continues to impact the economy. So, one has to be careful regarding the nature of property. Go for self occupancy, do not invest in a property to rent it out, advise experts.

Khosla of MyMoneyMantra.com explains that if you want to buy a shop in Khan Market, which you want to occupy yourself and start some business, surely go for it. But if you are planning to take a loan to purchase the property and give it on rent, now is not the time. In a Covid-hit market, the rent may fall or the shop may lie vacant for a while, but the needle is ticking in case of interests and EMIs. "I would not recommend buying a commercial property to give it out on rent in the current market," he says.

He cautions homebuyers to stick to a good brand name if they are looking for an under-construction property. In case of a ready-to-move-in one, the developer brand does not matter much, as much as the location.

Tax Benefits

According to existing rules, if you are a first-time buyer, you can avail income tax benefits on home loan under three sections — Section 80C, Section 24 and Section 80EEA of the I-T Act. These sections allow one to avail a maximum benefit of up to ₹5 lakh annually.

Section 80C allows a maximum tax deduction of up to ₹1.50 lakh on home loan principal and stamp duty. However, to avail the benefit, the homebuyer won't be able to sell the property within five years of possession.

Section 24 allows a homebuyer to avail a maximum tax benefit of ₹2 lakh on the interest, provided a family member of the assessee is living in that house. The entire interest is waived off as a deduction when the house is on rent. Section 80EEA, on the other hand, allows a maximum deduction up to ₹1.50 lakh provided the stamp duty value of residential property is up to ₹45 lakh. Apart from this, the home loan should be approved by a financial institution between April 1, 2019 and March 31, 2022, and the assessee should not own any residential property till the sanction of the loan. Also, he should not be claiming any deduction under Section 80EE. **BT**

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POLICING INDIA'S DIGITAL UNIVERSE
ARMED FORCES THE PENSION BOMB
NITISH KUMAR A SHAKY START
INDIA TODAY
THE BATTLE FOR BENGAL
CAN THE BJP WIN?
KERALA'S REVERSE MIGRATION HEADACHE
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IRS 2019 Q4 (TR)

Indian Fund Fundas

100%
Active large-cap funds underperformed the S&P BSE 100 in last six months

47%
Mid- and small-cap funds outperformed their benchmarks

31%
The odds of picking an outperforming large-cap active fund

15%
EPFO's investment of fresh EPF contributions in index funds

100%
Growth in index fund AUM to ₹20,426.01 crore during the one year to April 2021

Smart Investing

LOW-COST INDEX FUNDS ARE EMERGING AS TOP PICKS AS THEY STAND THE TEST OF TIME IN OUTPERFORMANCE

BY APRAJITA SHARMA
ILLUSTRATION BY RAJ VERMA

Ever wondered which is the world's largest mutual fund scheme? You will be surprised to know it is an index fund in an industry that swears by active funds. Launched by John Bogle in 1976, First Index Investment (now Vanguard 500 Index Fund) had only $1 billion in assets under management (AUM) till 1990. It now has an AUM of over $700 billion.

Index funds (also called passive funds) invest in stocks that comprise an index such as the Nifty50, the Bank Nifty, etc. These are cheaper than active MFs that rely on stock-picking by fund managers.

Of the top 10 funds in the US, nine are passively managed index funds. According to boutique portfolio management service firm QED Capital, PMS in the last 10 years in the US, active mutual funds saw an outflow of $1.2 trillion and index funds/ETFs an inflow of $1.4 trillion. As on March

2021, the US MF industry had $14.25 trillion worth of active assets and $10.62 trillion of passive assets. Passive equity assets had surpassed active equity assets briefly in 2019.

The India Story

India's 'passive' revolution has just started, but is catching up fast. From ₹9,952.01 crore in April 2020 to ₹20,426.01 in April 2021, the AUM in index funds has more than doubled. There has been a growth of 1,029 per cent from ₹1,808.69 crore in April 2016. A large part of it is due to the EPF money that has flown into index funds after 2015 (the government allowed 15 per cent of incremental EPF corpus to be invested in index funds since they are considered relatively safe).

The contribution of index funds to the overall mutual fund industry AUM, however, is still in single digits. It has grown from around 1 per cent in 2016 to 9 per cent over the last five years, data from Morningstar show.

The MF industry seems to have read the writing on the wall. As many as 17 index funds and ETFs were launched in 2020. This year has already seen 15 launches, according to Morningstar data. In fact, Motilal Oswal launched India's first international passive fund in 2020, which tracks the US S&P 500 Index. It had already launched an international ETF, Nasdaq 100 ETF, in 2011. "Among 14 index funds and ETFs that we have now, the international ones are the most popular. As much as 70-75 per cent of AUM is concentrated in the S&P 500 Index fund and the Nasdaq 100 ETF, which happened in a matter of two years," says Pratik Oswal, Head, Passive Funds, Motilal Oswal Mutual Fund.

Active Versus Passive

Data from QED Capital, PMS show actively managed equity mutual funds have given 9.17 per cent time weighted rate of return (TWRR) — the measure of the compound rate of growth in a portfolio — in the last 20 years, against 13.99 per cent on the Nifty BeeS, an ETF tracking the Nifty. The Nifty50 TRI (Total Returns Index), which includes dividends, gained as much as 15.21 per cent during the same period.

"We have included large-caps, midcaps, small-caps and all combinations to get a clearer picture. Secondly, we calculated TWRR, which eliminates the impact of fund inflows and outflows from return calculation because it is not under the control of the fund manager," says Anish Teli, Managing Partner and Principal Officer, QED Capital, PMS .

In the last six months of 2020, 100 per cent of the actively managed large-cap equity funds underperformed the S&P BSE 100, shows the SPIVA (S&P Indices Versus Active) Scorecard, a semi-annual study on active and passive funds. The report suggests that 68.42 per cent of large-cap funds underperformed (or, only 31.58 per cent outperformed) the benchmark index over the 10-year period to December 2020. Moreover, large-cap funds witnessed a low survivorship rate of 70.68 per cent during the same period. It means the rest of the funds might have liquidated or merged during the period of study, according to the SPIVA report.

MF Industry Performance In Last 20 Years

	MoC#	TWRR##	MF vs Index
MF industry*	5.79	9.17%	
Nifty50	12.8	13.59%	-4.42%
Nifty50 TRI**	16.98	15.21%	-6.04%
Nifty500 TRI	22.39	16.82%	-7.64%
Nifty BeeS***	13.71	13.99%	-4.81%

*Open-ended equity mutual funds; **Total Returns Index (which includes dividend); *** Dividend impact has not been considered; #Multiple of capital; ##Time weighted rate of return:
MF AUM data for open-ended equity MFs from 2001/21;
Source: QED Capital, PMS

Across The Globe

$1.2 trillion
Outflow from active funds in the US in last 10 years

$1.4 trillion
Inflow into index funds/ ETFs in the US in last 10 years

Passive equity assets in the US surpassed active equity assets briefly in 2019

The world's largest MF scheme — Vanguard 500 Index Fund — is a passive fund

Cost Is Key

What works in favour of index funds is simplicity and low-cost. Invest and forget — that's the mantra. Underperforming stocks are excluded from the index and the good ones are added. Also, the expense ratio on index funds is much lower than that on active funds. Total expense ratio (TER) is a percentage of one's investment that AMCs charge as a fee for managing funds. Simply put, if you invest ₹5,000 in a fund which has an expense ratio of 2 per cent, you pay ₹100 as the TER. So, if a fund gives a 15 per cent return and has an expense ratio of 2 per cent, you would earn 13 per cent.

The TER on active funds is 1-2.25 per cent. It could be as low as 0.2 per cent for most index funds.

Morningstar estimates the weighted average median TER in per cent for equity funds at around 1.93 per cent. So, if the AUM of equity oriented MF schemes is around ₹10.88 lakh crore as on May 2021, over ₹21,000 crore would have

been paid by investors as TER.

According to QED Capital, PMS data, the MF Industry has underperformed the Nifty BeeS by 4.8 per cent, up from 2.2 per cent in 2019. "The 2-2.5 per cent difference can be explained by what the industry charges as expense ratio... In fact, the greater the expense ratio of a mutual fund, the higher is the underperformance," says Teli, whose firm offers a mix of active and passive products.

ULTRA-HIGH NETWORTH INDIVIDUALS THESE DAYS PREFER PMS AND AIFs OVER MUTUAL FUNDS

Investing In SIPs

How does expense ratio impact your SIP investment? If you start an SIP of ₹5,000 in an active fund you may have to go to a distributor since you wouldn't know which mutual fund to buy. "Investors might end up paying an expense ratio of 1.5 per cent or more. But, if they decide to buy a Nifty Index fund, they don't need a distributor since they can buy a direct plan of any Nifty Index fund, which has a low expense ratio and higher AUM. These expense ratios can be as low as 0.2 per cent per annum (or even lower in some Nifty ETFs). So, the savings every year could be 1.3 per cent or more," says Varun Malhotra, Director and Founder, Edge Institute of Financial Studies.

Assuming a monthly SIP of ₹5,000 for 10 years at 15 per cent per annum in an index fund, you accumulate around ₹13.76 lakh. If you invest the same amount in an active fund, you would earn 1.3 per cent less. At 13.7 per cent per annum, you would accumulate ₹12.72 lakh. There will be a loss of ₹1.04 lakh due to the higher expense ratio.

"As the number of years increase, savings go up significantly. A SIP of ₹5,000 for 40 years at 13.7 per cent per annum would result in a corpus of around ₹10.13 crore. But a SIP of ₹5,000 for 40 years at 15 per cent per annum would mean accumulating ₹15.5 crore," says Malhotra.

Road Ahead For Active Funds

Active investment is based on the acumen of fund managers and advisers tracking down potential outperforming funds. In his book *Thinking, Fast and Slow*, Israeli psychologist and economist Daniel Kahneman says once he was granted a 'small treasure' of the investment outcomes of 25 anonymous wealth advisers for eight years. When he computed the year-on-year correlation between the outcomes of MFs, it was barely higher than zero. "The successful funds in any given year are mostly lucky; they have a good roll of the dice. There is general agreement among researchers that nearly all stock pickers, whether they know it or not — and few of them do — are playing a game of chance," he wrote.

One area that still holds relevance in active management is the mid- and small-cap space. Fund managers are better placed at spotting hidden gems much before they join the benchmark mid or small-cap index. The SPIVA Scorecard shows 53.06 per cent of mid- and small-cap funds outperformed the benchmark S&P BSE 400 MidSmallCap Index in the second half of 2020. The category fared the best, with the majority of them managing to beat the S&P BSE 400 MidSmallCap Index over the 10-year period to December 2020.

"Investors have compared passive and active investments from a performance perspective. But it's important to understand that both active and passive funds can complement each other in one's portfolio. Rather than looking at which one outperforms, it's important to look at the basics — an investor's risk appetite and long-term goals," says Kavitha Krishnan, Senior Analyst and Manager, Research, Morningstar India.

So far as ultra-high networth (UHNIs) are concerned, they now prefer PMS and Alternative Investment Funds (AIFs) over mutual funds for the much-coveted alpha (the excess return over a relative benchmark index). "In the US, a lot of active fund managers left the MF industry and joined AIFs and PMS because those segments give you flexibility in what to buy and sell across asset classes. Gradually, India is moving towards that direction, but obviously only HNIs and UHNIs can invest in PMS and AIFs due to the cap on minimum investment. Taking the SIP route in index funds is the best for retail investors," says Oswal.

So, is it dumb to mimic the index? "When 'dumb money' acknowledges its limitations, it ceases to be dumb, Warren Buffett once said. In fact, he wants 90 per cent of his inheritance to be invested in the Vanguard 500 Index Fund for his wife after he is gone. Choose simplicity over chasing alpha. The dumb is turning out to be the new smart. **BT**

@apri_sharma

Network

Gada, The Melody King

Hiren Gada, CEO of homegrown media company Shemaroo Entertainment, is an avid marathoner. His yoga session every morning is sacrosanct, and he never misses an opportunity to go trekking. A huge R.D Burman fan, Gada's favourite way of unwinding after a hard day's work is by singing classics such as *Phir Wahi Raat Hai* and *Do Lavzon Ki Hai Dil Ki Kahani*.

He is also the founder of *Pancham Pagaal*, a 100-member R.D. Burman fan club, which has fans of the maestro from across the globe. Members would meet at least once a month for jam sessions pre-Covid. Now, the sessions are mostly virtual.

Music, says Gada, has taught him teamwork. "A singer is accompanied by a host of instrumentalists and every instrumentalist plays an important role in making the song melodious. A particular instrument may be played just three times during a song, but it may have the maximum impact. Every person has a role to play. If you co-relate that with business, for a successful business outcome, the contribution of every member of the team, however, junior the person may be, cannot be negated. We can't say one is more important than the other."

– AJITA SHASHIDHAR

Sanka's Football Lessons

Aravind Sanka, Co-founder, Rapido, an online bike taxi aggregator, started playing football with colleagues to break the monotony. Slowly, it became a compulsory part of his break and fun time. Before the pandemic, Sanka used to play twice a week with colleagues and friends. "I started playing football three years ago. The whole idea was to increase more face time with the team." He ended up playing on any local turf or on any ground that the team booked. "Football has helped in building team spirit and camaraderie. Apart from getting to know the team well, it helps me stay fit." He doesn't have a favourite team though. Also, football isn't his only love. He likes playing cricket and volleyball as well.

– NIDHI SINGAL

• •

Grooming Professionals

Guiding people to be a better version of themselves. That's what **R.M. Vishakha,** Managing Director and CEO, IndiaFirst Life Insurance, loves doing as a hobby. On weekends, when most people engage in light activities, she conducts one-on-one sessions with people, and grooms them to be better professionals, all of it pro-bono.

"I have always enjoyed explaining things to people. Had I not been a CEO, I would have been a professor. These coaching sessions help me interact with people and know them better."

Vishakha completed a certification in executive coaching during the lockdown and started conducting sessions for others. "Interacting with people is invigorating. It amazes me how a similar theory or example is absorbed differently by different people."

People always look for an anchor to understand new concepts, she says. "That is how you can make things simpler for them. For example, if you have never heard of *upama*, you'll struggle to understand what sort of food it is. But if I say *namkeen halwa*, you'll instantly relate to it."

From a 24-year-old woman to a 65-year-old man, Vishakha has coached them all. "So far, word-of-mouth has led people to me. Before taking someone on board I make sure the person I am coaching is committed to learning. I invest a lot of time in coaching, I do not want my efforts to go waste."

– APRAJITA SHARMA

Best Advice I Ever Got

"IF LEADERS CANNOT BE INFLUENCED, INFLUENCE THE PERSON THEY TRUST"

KAUSHIK SARKAR, Senior Vice president, Finance & Commercial,
Robert Bosch Engineering and Business Solutions

• • • • • • • • •

What was the problem you were grappling with?

I took up a role in the automation division of an organisation, which was responsible for the process automation business (PAB). There were other established players in the sector and the PAB's growth was a problem. Since the business's margins were negative, it was managed by another team, the projects division, as well. Both had very strong leaders. Though they professed a need to collaborate, they fought tooth and nail. Slowly, a sense of confusion started eating into the organisation.

Who did you approach and why?

I approached everyone and no one. While crisis coaches and mentors are necessary, sometimes it is important to assess the ground reality ourselves and steer oneself towards those solutions.

What was the best advice you ever received?

Understand the environment you operate in, as well as the participants in the problem. In my case, it was the two leaders. The best way to obtain a good knowledge of any leader is through his/her executive assistant. So, if leaders cannot be influenced, influence the person they trust, to begin with. Once the base work is done, try to influence the top layer and earn the confidence of the whole team.

How effective was it in resolving the problem?

We could fix most of the problems by restructuring our offerings and bringing in cost savings through various measures. We also managed to build a trust coefficient among the associates, which was crucial. The business turned around in three years. BT

–P.B. JAYAKUMAR

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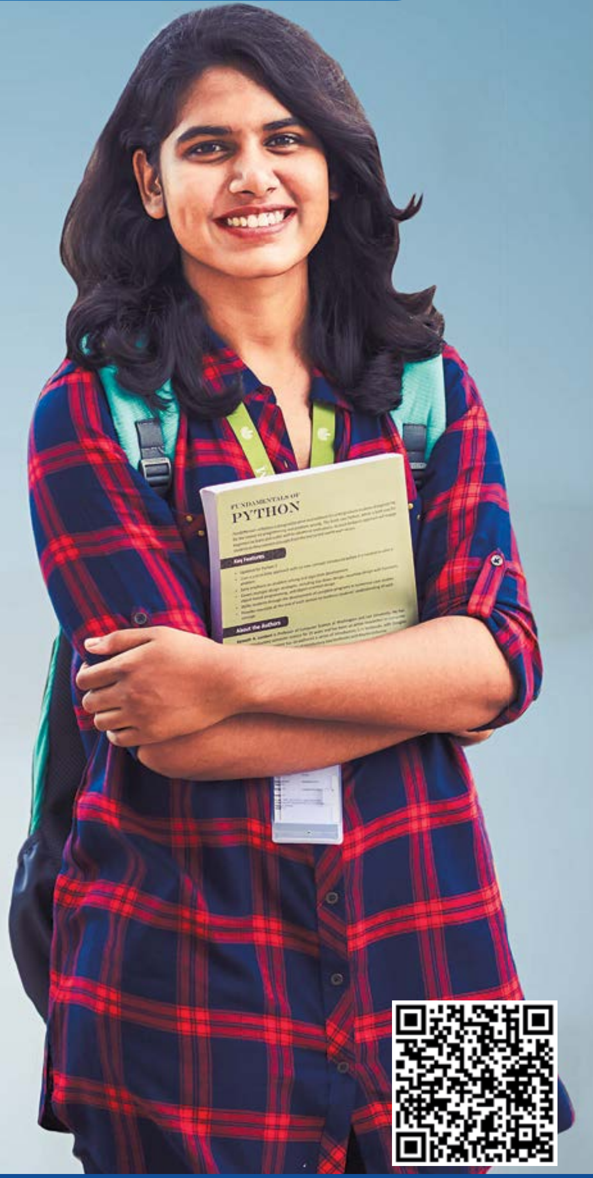

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